中油燃氣集團有限公司
CHINA OIL AND GAS GROUP LIMITED

(Incorporated in Bermuda with Limited Liability)
Stock Code: 603

ANNUAL REPORT 09

Contents

ENTERPRISE CULTURE

OUR CULTURE

- Integrity
- Rewards
- Excellency
- Harmony

OUR OBJECTIVES

Create values for our customers;

Create profits for our shareholders;

Create future for our employees;

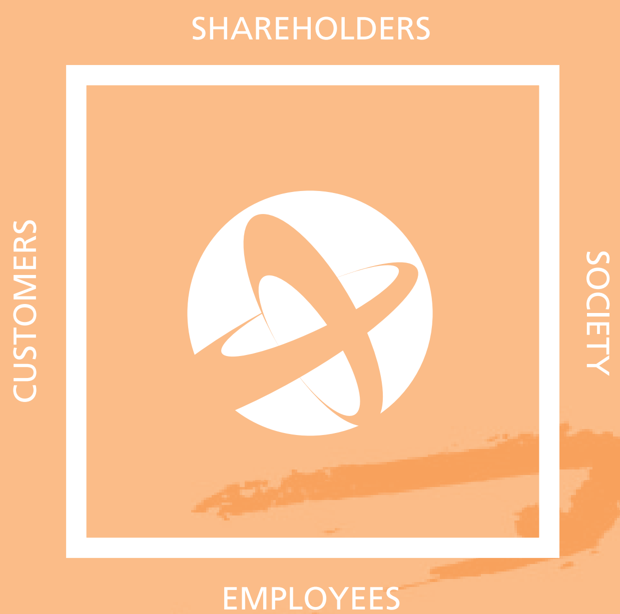
Create prosperity for our society.

OUR MISSION

Developing environmental friendly energy to secure sustainable development and make contributions to our future.

OUR VISION

Turning the Group into an internationally influential enterprise which produces environmental friendly and clean energy.



In order to achieve greater success for our Group's future,
we work our objectives like a four-equal-sides square, each side has to
make progress simultaneously!

03 Financial Highlights

	Notes:	31.12.2009	31.12.2008	(+/–)	31.12.2007	(+/–)
Turnover (HK$ million)		**1,721**	1,471	**17%**	677	117%
Gross Profit (HK$ million)		**408**	352	**16%**	170	107%
Total Sales on Gas Volume (million M^3)		**965**	815	**18%**	578	41%
Total Transmission and Transportation Gas Volume (million M^3)		**824**	409	**101%**	111	268%
Profit for the Year (HK$ million)		**253**	187	**35%**	114	64%
Profit attributable to equity holders of the Company (HK$ million)		**132**	73	**81%**	73	0%
Earnings per share (HK cents)		**2.96**	1.75	**69%**	2.07	– 15%
Total Assets (HK$ million)		**3,365**	2,793	**20%**	2,186	28%
Net Assets (HK$ million)		**2,223**	1,904	**17%**	1,542	23%
Net Assets Value per share (HK cents)	(a)	**49.86**	42.70	**17%**	40.40	6%
Cash per share (HK cents)	(b)	**24.00**	16.40	**46%**	22.00	– 25%
Return on Average Equity (%)	(c)	**6.40**	4.24	**51%**	7.75	– 45%
Price Earnings Ratio	(d)	**30.41**	11.43	**166%**	35.75	– 68%
Price to Book Ratio	(e)	**1.81**	0.47	**285%**	1.83	– 74%
Market value as at Year ended per share (HK$)		**0.90**	0.20	**350%**	0.74	– 73%
Market capitalization (HK$ million)		**4,012**	892	**350%**	2,825	– 68%

Notes:

(a) $\frac{\text{Net assets}}{\text{Issued and fully paid ordinary shares}}$

(b) $\frac{\text{Cash and cash equivalent}}{\text{Issued and fully paid ordinary shares}}$

(c) $\frac{\text{Profit attributable to equity holders of the Company}}{\text{Average equity attributable to equity holders of the Company}}$

(d) $\frac{\text{Market value per share as at Year ended}}{\text{Earnings per share}}$

(e) $\frac{\text{Market value per share as at Year ended}}{\text{Net assets value per share}}$

Operation Map

Strong operations in 5 key markets

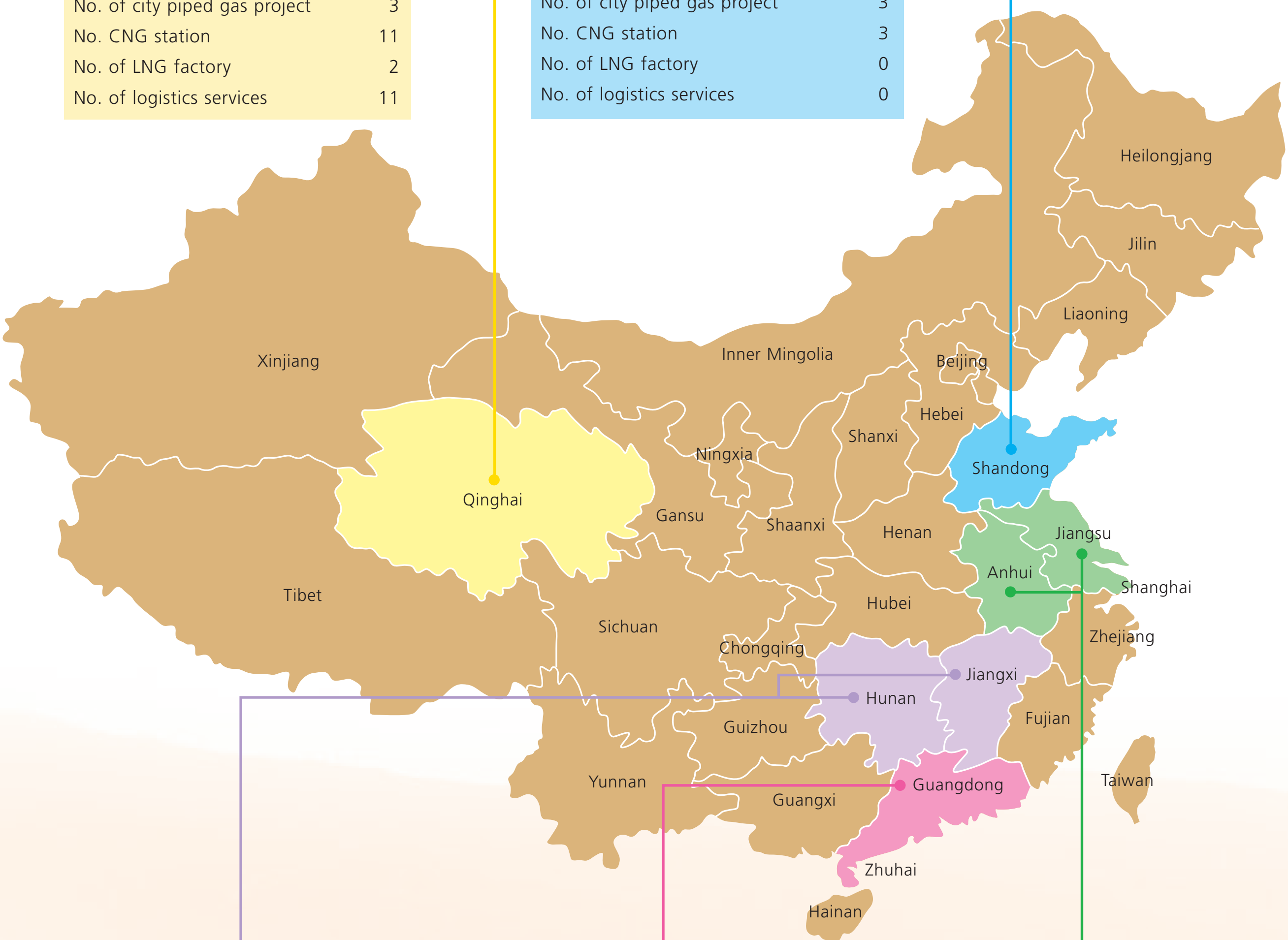
The Group has established 45 project companies in 19 cities, 5 key areas in 8 provinces, and owns 22 city gas franchise operation rights

North Western district (Qinghai)

Population (mln)	5.5
2009 gas sales and transmission (mln m³)	1,288
No. of city piped gas project	3
No. CNG station	11
No. of LNG factory	2
No. of logistics services	11

Yellow river delta district (Shandong)

Population (mln)	94.2
2009 gas sales and transmission (mln m³)	78
No. of city piped gas project	3
No. CNG station	3
No. of LNG factory	0
No. of logistics services	0



Xianggan district (Hunan, Jiangxi)

Population (mln)	112.5
2009 gas sales and transmission (mln m³)	307.0
No. of city piped gas project	5
No. CNG station	2
No. of LNG factory	0
No. of logistics services	1

Guangdong district

Population (mln)	82.3
2009 gas sales and transmission (mln m³)	16
No. of city piped gas project	2
No. CNG station	0
No. of LNG factory	0
No. of logistics services	1

Yangtze Delta district (Jiangsu, Anhui)

Population (mln)	144.2
2009 gas sales and transmission (mln m³)	99
No. of city piped gas project	4
No. CNG station	3
No. of LNG factory	0
No. of logistics services	2

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Corporate Profiles

China Oil And Gas Group Limited (the "Company") (stock code: 603) and its subsidiaries (the "Group") are principally engaged in investment in natural gas and energy related business. Gas operations of the Group include piped city gas business, pipeline design and construction, as well as transports, distributes, sales of compressed natural gas ("CNG") and liquefied natural gas "("LNG").

As a piped city natural gas service provider, the Group supplies city natural gas through long-distance transmission pipelines. With 22 secured franchise operation rights, the Group has built up city pipeline networks which offer stable and sufficient natural gas resources to local household, industrial, commercial and other users.

As a non-pipeline natural gas provider, the Group has established 2 LNG factories in Qinghai Province which is now come up on top within the People's Republic of China ("PRC") in terms of its processing capacity. Meanwhile, the Group has also built certain CNG primary stations to ensure our supply of natural gas is secured and stable all year round. These facilities support supplies of natural gas to cities not yet covered by the pipeline networks and are treated as emergency backup gas sources for our Group.

As a major national operator of natural gas stations for automobile natural gas filling, the Group has built dozens of natural gas stations across the country. Automobiles can be converted into natural gas operation system by paying an affordable fee. Some of the provinces will provide subsidy to automobile owners who are willing to convert their automobile into natural gas operating system. With supports from the PRC governments, our Group is offering inexpensive, clean and environmental friendly natural gas energy to the transportation sector.

Together, the Group has developed natural gas transport and logistics enterprises in the PRC. The Group has already set up LNG and CNG fleets which reinforced the mobility and coverage of our natural gas supplies. Year by year, consumption of natural gas has been increased rapidly in the percentage among the energy consumption within the PRC.

Corporate Profiles

FIVE MAIN DISTRICTS

North-Western District (西北區域):

Based on the foundation of Xining China Oil Corporation, in view of the opportunity from Se-Ning-Lan Multi-Track Construction (澀寧蘭複線), Qinghai China Oil Ganhe Industrial Park Gas Corporation and Qinghai China Oil East Gas Corporation have been incorporated one after another, and Qinghai China Oil Pipeline Corporation has been reorganised. In particular, the 2 LNG plants in Qinghai China Oil and Gas and Xining China Oil Corporation with daily processing capacity of 250,000m^3 each, have allowed end users to enjoy natural gas in areas where pipelines have not been reached.

Yangtze Delta District (長三角區域):

Our Group has arranged its market development staffs to perform discreet surveys on three cities along Jiangdu-Nantong Pipeline (江都一南通管線) i.e. Yangzhou, Taizhou and Nantong, as well as the 8 municipalities, 10 counties and 36 township development areas and industrial zones alone this pipeline. We have received satisfactory results that we have signed certain cooperation framework agreements with a few towns, development zones, and industrial parks. The natural gas mother station and a number of vehicles refueling stations in Nanjing and Maanshan have been put into operation. In addition, we were granted the franchise operation rights of gas businesses in Lishui Economic and Technological Development Zone, achieving sound economic results. Except a new branch line project company that the Group has acquired last year, we will build another branch line in this district.

Xianggan District (湘贛區域):

In elaborating our resources advantage of Xiangli Branch Line (湘醴支線), we have built our supply base in Liling that we can actively expand outwards. From Liling, we begin to develop new projects and at the same time continue to improve the sale capacity and market share of CNG and LNG. In view of an excellent opportunity of an exclusive outlet of Xi’er Line Project (西二線項目), Nanchang China Oil Corporation has expanded projects along the branch lines. Pinxiang China Oil Corporation has actively and stably pushed forwards the Liling-Pingxiang Natural Gas Pipeline project.

Shandong District (黃三角區域):

Begining with Binzhou China Oil Corporation, our Group plans the development of the natural gas market in Shandong area in an unified way. With the opportunity of pipeline construction of PetroChina in Shandong area, it has gradually strengthened and improved the existing projects, actively expanded our operations toward the surrounding areas and kept a powerful trend of development.

Guangdong District (廣東區域):

The natural gas reception of Chaozhou China Gas Corporation from West-to-East Gas Supply 2nd Line (西氣東輸二線) has created favorable conditions. Chaozhou and Yinde China Gas Corporation have constructed LNG reception station in order to realize our gas supply as early as possible and to develop the surrounding natural gas markets. Our Group has planned to set up a LNG distribution team and establish a sales network of Guangdong LNG, and at the same time, develop the corresponding natural gas markets and realised a win-win situation of both sale and development by leveraging LNG sale advantage.

Corporate Information

BOARD OF DIRECTORS

Executive Directors

XU Tie-liang *(Chairman & Chief Executive Officer)*
QU Guo-hua
CHEUNG Shing

Independent Non-Executive Directors

LI Yunlong
SHI Xun-zhi
PENG Long
WANG Guangtian

COMPANY SECRETARY

CHAN Yuen Ying Stella, *ACIS, ACS, MHKIoD*

AUTHORISED REPRESENTATIVES

XU Tie-liang
CHAN Yuen Ying Stella

AUDIT COMMITTEE

LI Yunlong *(Chairman)*
SHI Xun-zhi
PENG Long
WANG Guangtian

REMUNERATION COMMITTEE

LI Yunlong *(Chairman)*
PENG Long
WANG Guangtian
CHEUNG Shing

NOMINATION COMMITTEE

WANG Guangtian *(Chairman)*
PENG Long
LI Yunlong
CHEUNG Shing

AUDITORS

Ting Ho Kwan & Chan

PRINCIPAL REGISTRARS

Butterfield Fulcrum Group (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke HM 08
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

REGISTERED OFFICE

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2 Church Street
Hamilton HM11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 2805, 28th Floor
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Causeway Bay
Hong Kong

PRINCIPAL BANKER

The Hongkong and Shanghai Banking Corporation Limited

STOCK CODE

603

WEBSITE AND E-MAIL ADDRESS

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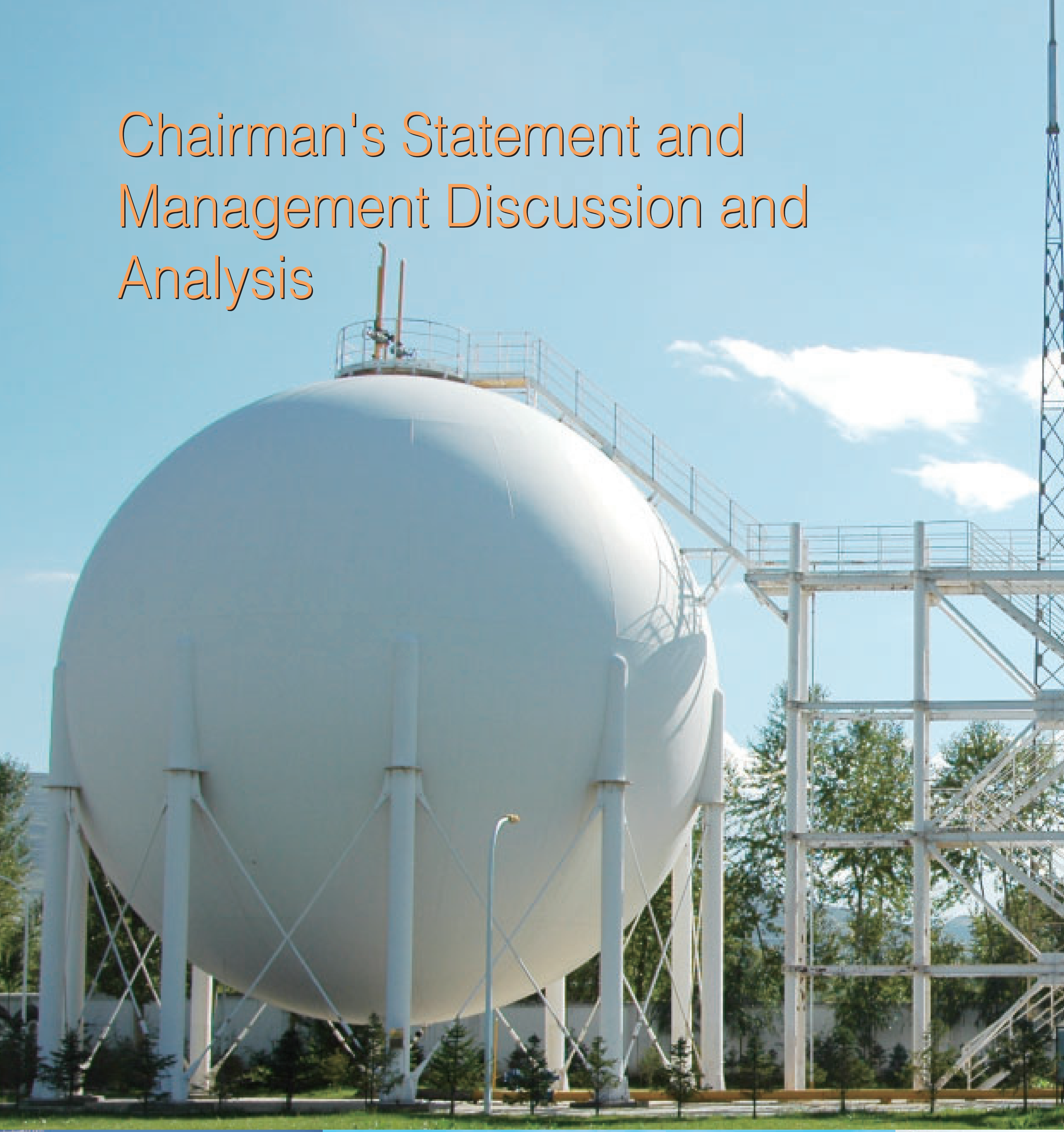
E-mail: info@hk603.com

Chairman's Statement and Management Discussion and Analysis




中油燃气
中油燃气

Chairman's Statement and Management Discussion and Analysis

Year 2009 is a year of milestone significance in the business development of the Group. During the year and under the leadership of the Board, all our staff worked hard with untiring efforts to overcome the difficulties caused by the financial tsunami in the gas market, such that businesses on all fronts recorded steady advancement, laying a solid foundation for the Group's rapid-expansion and development in leaps and bounds in future.

The Group has established 45 project companies in 19 cities, 5 key areas, 8 provinces, and owns 22 city gas franchise operation rights. In April 2009, the Company entered into an investment agreement with Binzhou City Development and Reform Commission to invest in natural gas utilization projects such as piped city gas, natural gas stations, and natural gas transportation and logistics. In May, the Group secured piped gas franchise operation rights of Lishui Economic Development Zone in Nanjing and city piped gas franchise operation rights of Anyi County, Jiangxi Province. In October, China City Natural Gas Co., Ltd. (中油中泰燃氣有限責任公司) ("CCNG"), a non-wholly owned subsidiary of the Group, acquired Taizhou Tongda Project, which is building a natural gas long-distance pipelines of 90 km in length running from Sihang(寺巷) to Jiangyan(姜堰) and Dainan(戴南) in Taizhou City, Jiangsu Province. The Group has developed over 44 thousand residential users, around 90 industrial users, and around 200 public construction and other users during the year. Also, 8 project companies were newly incorporated. In the just passed March, CCNG successfully acquired 60% equity interest in Yinchuan Yongning Jingcheng Natural Gas Company Limited(銀川市永寧縣精誠天然氣有限公司), thereby expanding the Group's operation coverage from 7 provinces to 8 provinces.

Chairman's Statement and Management Discussion and Analysis

In October 2009, China Petroleum Pipeline Bureau, the Group's original cooperation partner, transferred the 49% equity interest in CCNG held by it to Kunlun Energy Company Limited ("Kunlun Energy") (HK.0135) under PetroChina Company Limited ("PetroChina") (HK.0857). After successful joint equity cooperation between the Group and Kunlun Energy, both parties united as one and intensified investment in CCNG, increasing its share capital to RMB500 million, so as to support CCNG's development in the city gas business of China. In December of the same year, CCNG entered into a strategic cooperation agreement with CNPC Kunlun Natural Gas Company Limited(中石油昆侖燃氣有限公司) ("Kunlun Gas"), a wholly-owned subsidiary of PetroChina, pursuant to which both parties reached consensus on issues such as non-competition, joint development of district market, joint-use of resources of LNG and LPG and so on. Stepping into 2010, CCNG has also concluded a strategic cooperation framework agreement with PetroChina Coalbed Methane Co. Ltd. (中石油煤層氣有限責任公司) ("PetroChina Coalbed Methane"), a wholly-owned subsidiary of PetroChina, to obtain 20-year exclusive centralized wholesale rights for 2 areas in Daning County and Baode County in Shanxi Province, where the coal-bed methane reserve totaled over 150 billion m^3. Against a backdrop severe lack of natural gas resources in China nowadays, the Group's collaborated with Kunlun Energy, Kunlun Gas and PetroChina Coal-bed Methane under PetroChina and established friendly cooperation relationships with them to effectively reinforce our control over natural gas resource and secure natural gas resource advantage, which has secured firmly our sustained steady growth of operating results as well as development and exploration in the gas market.

Looking into 2010, the city gas market in China confronts with a complex and changing economic situation, increasingly fierce competition among industry players and lingering effects of the financial tsunami and other negative factors. However, by virtue of its outstanding operation management team, natural gas resource advantage and friendly cooperation relationships with cooperative partners and local governments in various areas, the Group will be able to capitalize on the golden opportunities emerged in the light of China Government's advocates to save energy and reduce emission, to augment urbanization and to keep China economic in sustained steady development. We are confident in maintaining the Group's rapid and steady development and manage to proceed well with the following key areas:

First, we are to seize opportunities and intensify our efforts to develop and explore city piped natural gas business. Along with West-to-East Gas Supply 2nd Line (西氣東輸二線) and Sino-Burma Line(中緬線) being put into operation, the imported LNG will be entering China gradually in the next few years, which implies that there will be substantial increase in the supply of natural gas resources. Coupled with China's national policies to save energy and reduce emission, and to promote clean energies actively, the prospects for sales of natural gas is promising. The Group will seize opportunities to develop piped natural gas business with meticulous organization and intensified efforts. Taking the Group's existing 5 key areas, namely

Chairman's Statement and Management Discussion and Analysis

Western District, Yangtze Delta District, Pearl Delta District, Yellow River Delta District and Xianggan District, as foundation, according to the Group's planning, the sales of natural gas in these areas in 2009 of approximately 1 billion m^3, may increase twofold in three years, and threefold in six years, hoping that the Group's yearly sales volume will surpass 8 billion m^3 after 2016.

Second, we are to consolidate and develop LNG and CNG business. The Group will enhance management, excavate potential, stabilize gas source to secure the sustained steady development of its existing LNG and CNG business, and will further expand related logistics and transport business according to market demand.

The third key task is natural gas branch line construction. The Group has constructed two branch lines each in Qinghai Province and Hunan Province respectively. In 2010, the construction of the Group's three branch lines, each in the Taizhou-Jiangyan-Dainan branch line in Jiangsu Province (total length of approximately 90 km), the Nantong Rugao(南通如皋)-Haian(海安) branch line in Jiangsu Province (total length of approximately 45 km) and the Anyi(安義)-Nanchang(南昌) branch line in Jiangxi Province (total length of approximately 45 km) will be successively completed. Apart from bringing stable transmission revenue, the branch line constructions also make management relatively easier and simpler, and help the Group's development of projects along the down-stream. It is expected the demand for natural gas by the markets along the above three branch lines will reach 0.8-1.2 billion m^3 yearly.

The fourth one is to construct coal-bed gas utilization projects. Pursuant to the agreement signed with PeroChina Coal-bed Methane, in order to sell and transport coal-bed gas, the Group plans to build two LNG factories with a daily liquefaction capacity of 1 million m^3 each. During the period of constructing LNG factories, the Group will first sell the gas produced from scattered wells in the two areas in the form of CNG to surrounding areas. It is expected that coal-bed projects can generate revenue for the Company from 2010.

Fifth, we are to develop down-stream sale of LPG. Pursuant to the agreement concluded between the Group and Kunlun Gas, Kunlun Gas will provide the Group with price-competitive LPG resource. LPG is so far the major gas source in China with over 60% market share, particularly significant in cities and vast rural areas where there is no piped natural gas covered. In view of the severe lack of natural gas resources in China, LPG will serve as a supplement gas source for the Group, provide more choices to our end users, and bring new opportunities for our market development.

Chairman's Statement and Management Discussion and Analysis

It is anticipated that the revenue and sales of both year 2010 and 2011 can increase by over about 30% year on year. Meanwhile, the Group will reinforce project management, strengthen mergers and acquisitions, and explore and develop up-stream and down-stream projects related to existing businesses. The Group will never disappoint its shareholders and its staff, but work hard and endeavor to become a first-class gas energy enterprise in China! On behalf of the Board, I would like to express my gratitude to all of our staff for their dedication and hard work and to our shareholders for their continuous support.

The following discussions should be read in conjunction with the audited financial statements of the Group and the notes to the financial statements contained in this annual report and other sections for the Year ended 2009.

FINAL DIVIDEND

The Board does not recommend any dividend for the Year (2008: Nil).

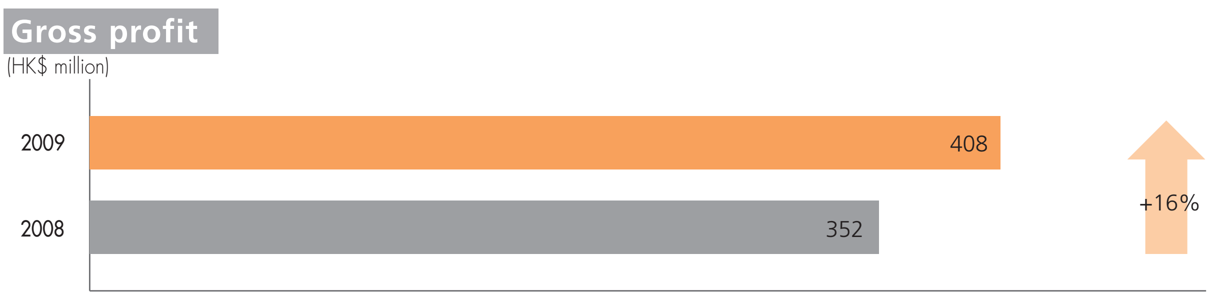
FINANCIAL RESULTS

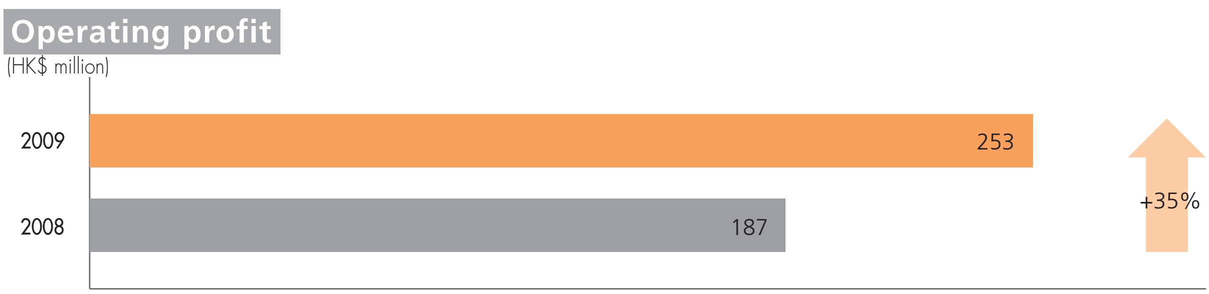
For the Year ended, the Group recorded a turnover of HK$1,721,138,000 (2008: HK$1,471,364,000), representing an increase of approximately 17%. The Group's cost of sales was HK$1,312,676,000 (2008: HK$1,119,397,000) representing an increase of approximately 17%. Gross profit amounted to HK$408,462,000 (2008: HK$351,967,000) increased by 16.1%. Profit for the Year was HK$252,772,000 (2008: HK$187,043,000), increased by 35%.

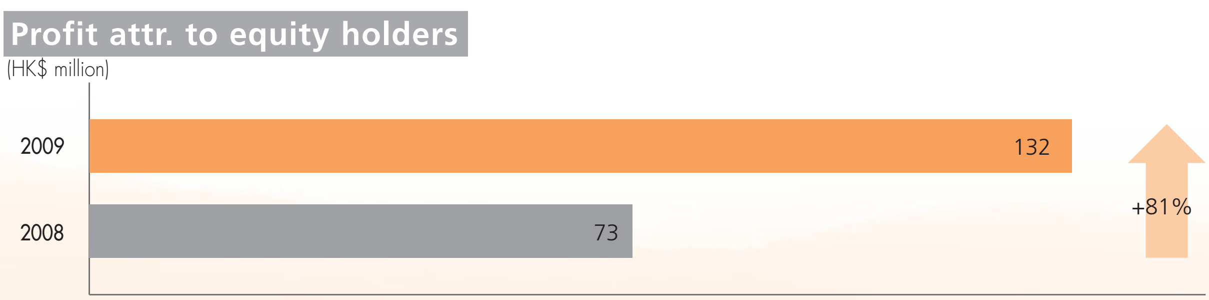
The Group's profit attributable to the shareholders was HK$132,090,000 (2008: HK$73,025,000), which recorded a significant increase of approximately 81% as compared to 2008. As a result, the earning per share has been increased by 69.3% from HK cents 1.750 to current year's HK cents 2.963.

Chairman's Statement and Management Discussion and Analysis

Financial highlights





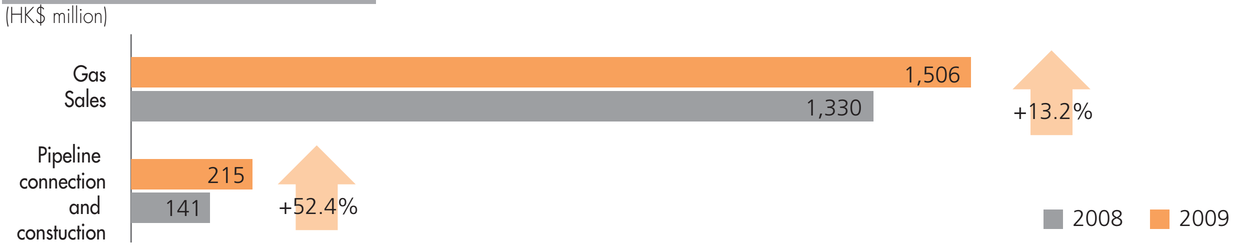


Pursuant to the Hong Kong Accounting Standards (the "HKAS"), the movement of fair values of all financial derivative instruments of the Group shall be reflected in the income statement. Therefore, at the year ended 2008, the Group recorded fair value losses on financial assets written down to market value amounted to HK$17,993,000 where in 2009, the financial instruments were written up to market value amounted to HK$1,164,000. Together, the Group recorded a gain on disposal of financial assets amounted to HK$30,210,000 for the year ended 31 December 2009. During 2009, the Group recognised interest income of HK$3,211,000, where in 2008, a total of HK$13,798,000 had been recorded. Two convertible notes have been issued in 2007 and fully converted in 2008. Therefore, at the end of 2008, the fair value reduction of the convertible notes of an amount HK$4,458,000 has been provided, where no such expenses incurred during 2009. After the reconciliation of the above issues, the profit attributable to shareholders in 2009 will be HK$98,669,000 and HK$81,678,000 in 2008, which represented an increase of 21%.

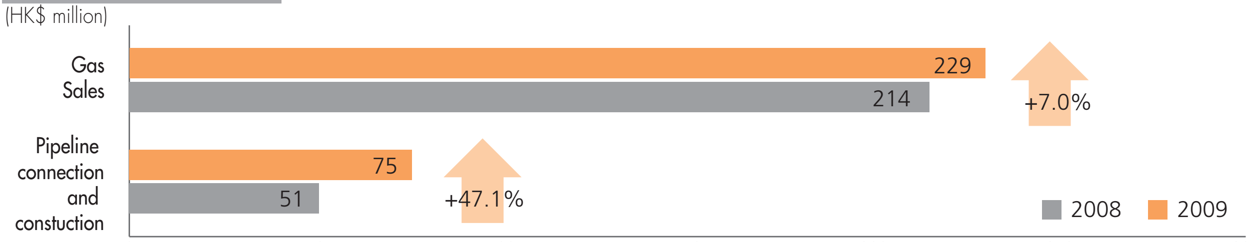
Chairman's Statement and Management Discussion and Analysis

Robust growth in both segments

Revenue by segments



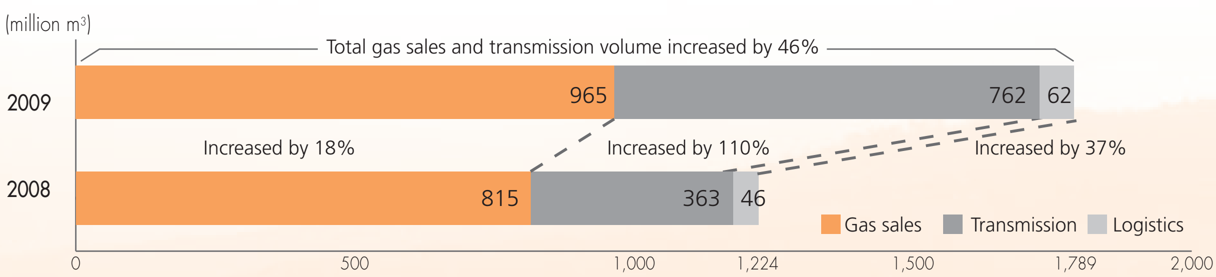
Segment results



BUSINESS REVIEW

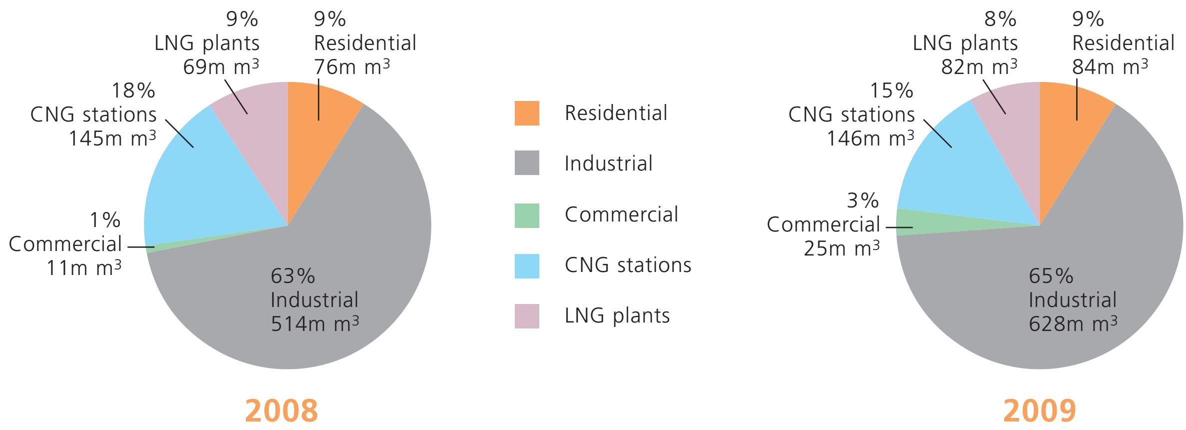
During the Year, the Group's total gas sales and transmission volume reached 1.789 billion cubic meters (m^3), increased by 46.2% as compared to 1.224 billion m^3 for last year. Total gas sales increased by 18.4% from last year's 815 billion m^3 to current year's 965 million m^3; whereas transmission and logistic volume increased by 101.5% from 409 million m^3 to the Year's 824 million m^3. Among the gas consumption, 3% (2008: 1%) was commercial consumption; 65% (2008: 63%) was industrial consumption; 9% (2008: 9%) was household consumption; 15% (2008: 18%) was CNG stations; and 8% (2008: 9%) was supplied by our LNG plants.

Total gas sales and transmission volume



Chairman's Statement and Management Discussion and Analysis

Gas sales by end-user



The Group's operating and administrative expenses for the Year are HK$109,808,000 (2008: HK$110,115,000), a slightly decrease of 0.3%. Finance costs decreased 32% from 2008's HK$24,489,000 to HK$16,703,000 this year. After the deduction of the liability portion of convertible notes incurred in 2008 (as stated in the previous discussion), finance costs on interest paid to bank and other loans was decreased by 16.6%.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2009, the Group employed a total workforce of approximately 1,410 (2008: 1,350) where mostly were stationed in the PRC. The staff costs for the year amounted to HK$45,929,000 (2008: HK$28,132,000). The employees' remuneration, promotion and salary are assessed based on work performance, working experience and professional qualifications and the prevailing market practice.

PLEDGE OF ASSETS

Except as disclosed in note 25 to the financial statements, no asset of the Group has been pledged as at 31 December 2009.

CONTINGENT LIABILITY

As at 31 December 2009, the Group did not have any significant contingent liabilities.

CURRENCY AND INTEREST RATE EXPOSURE

The Group's sales are denominated in Renminbi, and investments are mostly made in Hong Kong Dollars. The Group does not anticipate material currency exposure and risk, and no currency and interest rate risk management or related hedges were made. Proper policy will be in place when the Board considers appropriate.

LITIGATION

As at 31 December 2009, the Group has no litigation.

LIQUIDITY AND FINANCIAL RESOURCES

Except as disclosed in note 37 to the financial statements, the Group did not incur or commit any material investment or capital expenditure.

BORROWINGS

As at 31 December 2009, the Group's total borrowings amounted to HK$390,132,000 (2008: HK$305,322,000), representing bank borrowings and loans made for the gas operations in the PRC under CCNG, an increase of 27.78% as compared to 2008. All bank loans were unsecured and made in Renminbi with the interest rate of 5.94%. The unsecured other borrowings of HK$30,038,000 (2008: HK$33,489,000) were interest bearing at 2.28% to 2.55% per annum, and the remaining HK$2,758,000 (2008: HK$13,225,000) portions were bearing an interest rate of 4.78% repayable within 5 years.

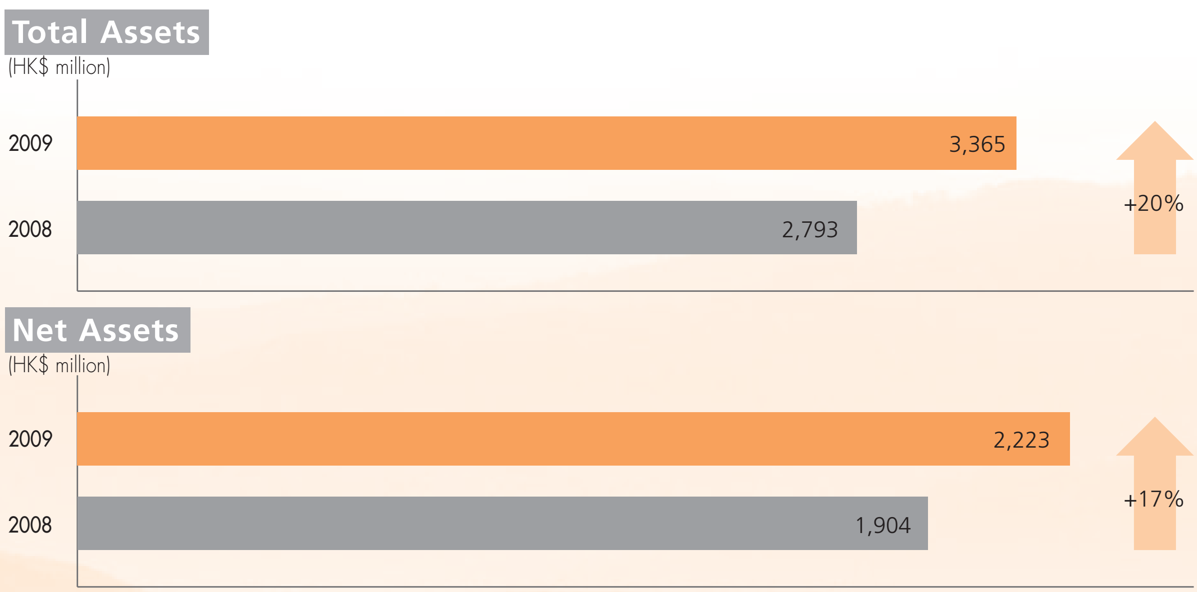
Save for the borrowings of CCNG, the Group has no other bank loans, overdraft or borrowings.

CAPITAL STRUCTURE

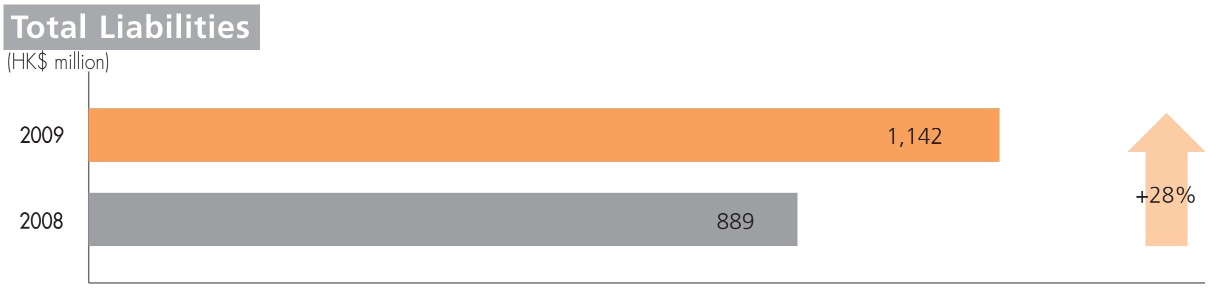
No share movements during the year of 2009.

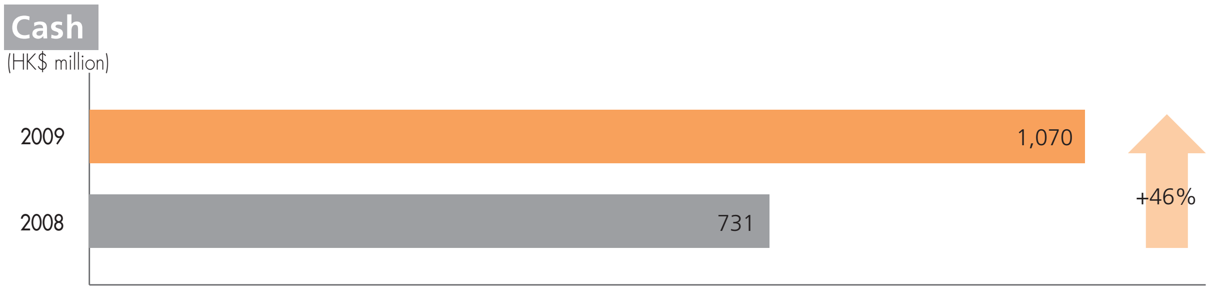
As at 31 December 2009, the Group had total assets of HK$3,365,000,000 (2008: HK$2,793,000,000), and among which current assets were HK$1,444,000,000 (2008: HK$1,123,000,000). The Group remained at a strong financial position, cash and cash equivalents amounted to HK$1,070,000,000 (2008: HK$731,151,000) and were mostly denominated in Hong Kong dollars and Renminbi. Total liabilities of the Group were HK$1,142,000,000 (2008: HK$888,840,000), and current liabilities were HK$1,080,000,000 (2008: HK$818,240,000). The significant increase of HK$261,760,000 in current liabilities were mainly due to increase in gas prepayment made by users, which also contributed to the increase in cash at the year end. The Group's gearing ratio, measured on the basis of total liabilities as a percentage of total equity, was 51% (2008: 47%). The current ratio of the Group was 1.34 (2008: 1.37) and quick ratio was 1.29 (2008: 1.32).

Strong balance sheet



Chairman's Statement and Management Discussion and Analysis





In February 2010, the Company issued 500,000,000 shares under the placing and subscription agreement entered among Mr. Xu Tie-liang, the Company, Sino Advance Holdings Limited and Sino Vantage Management Limited and Deutsche Bank AG, Hong Kong Branch on 26 January 2010, and a net proceeds of approximately HK$606 million was received.

As announced by the Company on 20 January 2010, the Company proposed to reduce the share premium from approximately HK$1,968,998,000 to HK$1,368,998,000 by cancelling the amount of HK$600,000,000 standing to the credit of the share premium account of the Company, with part of the credit arising there from being applied towards offsetting the entire amount of the accumulated losses of the Company as at 5 March 2010 and the remaining balance being credited to the contributed surplus account of the Company. A special resolution for approving the aforesaid proposal was passed by the shareholders of the Company at the special general meeting of the Company held on 4 March 2010. Details of the proposal are set out in the circular of the Company dated 1 February 2010.

Xu Tie-liang
Chairman

Hong Kong, 8 April 2010

Biographical Details of Directors

CHAIRMAN, CHIEF EXECUTIVE OFFICER AND EXECUTIVE DIRECTOR

Mr. Xu Tie-liang, aged 46, was appointed as an executive Director and the Chairman of the Company on 30 August 2006. He was also appointed as the Chief Executive Officer of the Company on 4 November 2009. Mr. Xu graduated from Xi'an Shiyou University（西安石油大學）majoring in finance and accounting, and he is a registered certified public accountant and lawyer in the People's Republic of China (the "PRC"). He was an independent director of Hua Xia Bank Co., Limited, a company listed on the Shanghai Stock Exchange, and Shandong ShengLi Company Limited, a company listed on Shenzhen Stock Exchange. He was also directors of various companies specializing in investments in oil and energy businesses and provision of legal and management consultancy services. Mr. Xu worked in various governmental legal departments in the PRC. He had been the vice chairman and general manager of China Legal Service (Hong Kong) Limited and the vice chairman of China Law Magazine Limited. Mr. Xu has extensive experience in investments, merger and acquisition, legal, accounting and finance, and corporate governance aspects. Save as disclosed above, Mr. Xu did not hold directorship in other listed public companies in the past three years.

Upon the expiration of the term of the service contract with the Company on 31 August 2008, there is no service contract between the Company and Mr. Xu. There is no agreement between the Company and Mr. Xu in respect of the proposed length of service or prior notice to be given by either party for termination of service with regard to his engagement as an executive Director. He is subject to retirement by rotation at least once every three years in accordance with the Bye-laws of the Company ("Bye-laws"). Mr. Xu is entitled to a director's remuneration to be fixed by the board of Directors of the Company (the "Board") with reference to the recommendation of the Remuneration Committee of the Company (the "Remuneration Committee"), the performance of the Company and its subsidiaries (the "Group") and the prevailing market conditions.

EXECUTIVE DIRECTORS

Mr. Qu Guo-hua, aged 58, was appointed as an executive Director of the Company on 30 August 2006. He graduated from South West Petroleum University（西南石油大學）in 1987 and graduated from Air Force Logistic Institute（空軍後勤學院）in July 2000. He is a senior engineer, working for China Petroleum Pipeline Bureau（中國石油天然氣管道局）as a pipeline expert. Mr. Qu is also a representative of the Thirteenth Session of the National People's Congress of Xining and a member of Qinghai Provincial Committee of the Chinese People's Political Consultative Conference. He has been a managing director of China City Natural Gas Co., Ltd （中油中泰燃氣有限責任公司）, 51% equity interest of which was owned by the Company, since 2002. He has been working in the subsidiaries of China National Petroleum Corporation ("CNPC") since 1968, as the chief operating officer and deputy operating manager etc. He is responsible for organising and supervising the ground surface construction works of the oilfields of CNPC and construction works of the long distance pipelines. He participated and organised Shanghai City natural gas distribution and supply work, and the water and gas pipeline construction work for Suzhou Industrial Park as well as construction of large oil storage tank in Zhoushan. Mr. Qu has extensive experience in the petroleum and gas industries, as well as expertise on the construction of oil and gas pipeline network. Mr. Qu did not hold directorship in other listed public companies in the past three years.

Biographical Details of Directors

Upon the expiration of the term of the service contract with the Company on 31 August 2008, there is no service contract between the Company and Mr. Qu. There is no agreement between the Company and Mr. Qu in respect of the proposed length of service or prior notice to be given by either party for termination of service with regard to his engagement as an executive Director. He is subject to retirement by rotation at least once every three years in accordance with the Bye-laws. Mr. Qu is entitled to a director's remuneration to be fixed by the Board with reference to the recommendation of the Remuneration Committee, the performance of the Group and the prevailing market conditions.

Mr. Cheung Shing, aged 57, was appointed as an executive Director of the Company on 13 January 2006. He is a director of each of Alta Financial Holdings Limited, China Oil And Gas (Shandong) Limited and King Wood Management Limited, subsidiaries of the Company. He is also a member of each of the Remuneration Committee and the Nomination Committee of the Company (the "Nomination Committee"). He was a staff of 中國石油齊魯石化煉油廠, the department president of 中國石油勝利油田 and the president of 中國石油中原油田 during the period between 1969 and 1993. He was the chairman of each of 華中（香港）有限公司, 河南省盛華石油化工有限公司 and Liaoning Xinmin Petroleum Company Limited during the period between 1993 and 2004. He is currently a petroleum and natural gas management economist（石油天燃氣集團管理經濟師）. Mr. Cheung is currently an executive director and deputy chairman of Sino Union Energy Investment Group Limited, a company listed on the Stock Exchange. Save as disclosed above, Mr. Cheung did not hold directorship in other listed public companies in the past three years.

There is no service contract between the Company and Mr. Cheung, and there is no agreement between the Company and Mr. Cheung in respect of the proposed length of service or prior notice to be given by either party for termination of service with regard to his engagement as an executive Director. He is subject to retirement by rotation at least once every three years in accordance with the Bye-laws. Mr. Cheung is entitled to a director's remuneration to be fixed by the Board with reference to the recommendation of the Remuneration Committee, the performance of the Group and the prevailing market conditions.

Biographical Details of Directors

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Shi Xun-zhi, aged 75, was appointed as an independent non-executive Director of the Company on 30 August 2006. He is a member of the Audit Committee of the Company (the "Audit Committee"). He is a deputy minister and a professor senior engineer. He has been awarded the Youth and Mature Scientist with outstanding contributions by the State Council. He graduated from Petroleum Institute of Beijing (renamed as China University of Petroleum, Beijing)（中國石油大學（北京）） in 1956 in the profession of petroleum geology. He worked as geology engineer, associate director of the technology division, director of human resources division, supervisor in CNPC, CNPC president's special assistant and also a member of the Ninth Chinese People's Political Consultative Conference. He has been the chairman of CNPC Sino-Russian Oil & Gas Corporation Committee and the chairman of China National Oil & Gas Exploration and Development Corporation（中國石油勘探開發公司）and the chairman of CNPAAlberta Petroleum Center（中國加拿大阿爾伯特石油中心）and was responsible for the oil and gas works between China and Russia, and worked on the overseas petroleum exploration and development as well as international cooperation work. He is currently the vic-president of Northeast Asian Gas And Pipeline Forum and the president of Asia Gas & Pipeline Cooperation Research Center of China. Mr. Shi did not have any directorship in other listed public companies in the past three years.

There is no service contract between the Company and Mr. Shi, and there is no agreement between the Company and Mr. Shi in respect of the proposed length of service or prior notice to be given by either party for termination of service with regard to his appointment as an independent non-executive Director. He is subject to retirement by rotation at least once every three years in accordance with the Bye-laws. Mr. Shi is entitled to director's remuneration to be fixed by the Board with reference to the recommendation of the Remuneration Committee, the performance of the Group and the prevailing market conditions.

Mr. Peng Long, aged 46, was appointed as an independent non-executive Director of the Company on 13 January 2006. He is a member of the Audit Committee, the Remuneration Committee and the Nomination Committee. He has been the vice principal of the Dean of School of International Business and Beijing Foreign Studies University, since August 2007. Mr. Peng is at the same time a director of International Finance and Commerce Institute (IFCI) of Beijing Foreign Studies University, deputy director of International Business English Studies Committee of China Association of International Trade, independent director of Nanjing Landsea Co. Ltd and adjunct professor in Business School of Beijing University of Posts and Telecommunications. He was also an independent director of Super Shine Co. Ltd, a company listed on the Shenzhen Stock Exchange. Mr. Peng graduated from Institute of Systems Science, Chinese Academy of Science, with a doctor degree offered by Chinese Academy of Science in 1997. He then worked as a post-doctor in Guanghua School of Management, Beijing University, focusing his research on finance, option pricing and finite element method, and enjoyed Government Special Allowance from China State Council. Save as disclosed above, Mr. Peng did not have any directorship in other listed public companies in the past three years.

There is no service contract between the Company and Mr. Peng, and there is no agreement between the Company and Mr. Peng in respect of the proposed length of service or prior notice to the either party for termination of service with regard to his appointment as an independent non-executive Director. He is subject to retirement by rotation at least once every three years in accordance with the Bye-laws. Mr. Peng is entitled to a director's remuneration to be fixed by the Board with reference to the recommendation of the Remuneration Committee, the performance of the Group and the prevailing market conditions.

Biographical Details of Directors

Mr. Li Yunlong, aged 58, was appointed as an independent non-executive Director of the Company on 18 April 2008. He is the chairman of each of the Audit Committee and the Remuneration Committee and a member of the Nomination Committee. Mr. Li graduated from the Accounting School of Zhongnan University of Economics and Law（中南財經政法大學會計學院）with a Bachelor Degree in Economics. Mr. Li is a registered certified public accountant in the PRC and possesses the qualification of PRC senior auditor. Mr. Li had been working at the National Audit Office of the PRC for over 10 years in various audit departments, and he is currently a partner of Hua Wen CPA Ltd（華聞會計師事務所）in the PRC. He is the financial consultants of various companies in the PRC, and an independent director of Xichang Power Joint Stock Co. Ltd. Sichuan （四川西昌電力股份有限公司）, a company listed on the Shanghai Stock Exchange. He has extensive experience in legal, accounting, auditing and finance aspects. Save as disclosed above, Mr. Li did not have any directorship in other listed public companies in the past three years.

There is no service contract between the Company and Mr. Li, and there is no agreement between the Company and Mr. Li in respect of the proposed length of service or prior notice to the either party for termination of service with regard to his appointment as an independent non-executive Director. He is subject to retirement by rotation at least once every three years in accordance with the Bye-laws. Mr. Li is entitled to a director's remuneration to be fixed by the Board with reference to the recommendation of the Remuneration Committee, the performance of the Group and the prevailing market conditions.

Mr. Wang Guangtian, aged 46, was appointed as an independent non-executive Director of the Company on 4 November 2009. He is the chairman of the Nomination Committee and a member of each of the Audit Committee and Remuneration Committee. He holds a master's degree in world economics from the Hebei University and has over 26 years of experience in financial and administrative management. He is currently a vice president of Guofu Group and a director and the general manager of Guofu (Hong Kong) Holdings Limited. He is also currently an independent non-executive director of XinAo Gas Holdings Limited, a company listed on the Stock Exchange. Save as aforesaid, Mr. Wang did not hold any directorships in any other listed public companies in the past three years.

There is no service contract between the Company and Mr. Wang, and his terms of appointment is two years commencing on 4 November 2009. He is subject to retirement by rotation at least once every three years in accordance with the Bye-laws. Mr. Wang is entitled to a director's remuneration to be fixed by the Board with reference to the recommendation of the Remuneration Committee, the performance of the Group and the prevailing market conditions.

Report of the Directors

The Board is pleased to submit their report together with the audited consolidated financial statements of the Group for the year ended 31 December 2009.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The Group is principally engaged in investments in natural gas and energy related businesses.

RESULTS AND APPROPRIATIONS

The Group's profit for the year ended 31 December 2009 and the state of affairs of the Group as at that date are set out in the audited financial statements on pages 38 to 119.

The Directors did not recommend the payment of a final dividend for the year ended 31 December 2009 (2008: Nil).

SUMMARY OF FINANCIAL INFORMATION

A summary of the results and of assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out on page 120. This summary does not form part of the audited financial statements.

SEGMENT INFORMATION

An analysis of the Group's turnover and contribution to results by principal activities and geographical area of operations for the year ended 31 December 2009 is set out in note 7 to the financial statement.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year under review are set out in note 17 to the audited financial statements.

SHARE CAPITAL

Details of movement in the Company's share capital during the year under review, together with the reasons therefor, are set out in note 32 to the audited financial statements.

SHARE OPTION SCHEME

The Company adopted a share option scheme on 31 January 2002, details of the scheme are set out in note 34 to the audited financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Bye-laws or the laws of Bermuda, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2009.

DISTRIBUTABLE RESERVES

As at 31 December 2009, no reserve of the Company was available for distribution to shareholders of the Company. In addition, the Company's share premium account will be in a position to pay off its debts as and when they fall due in the ordinary course of business. The share premium account may also be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

The percentage of purchases and sales attributable to the Group's major suppliers and customers are as follows:

	2009	2008
	%	%
Purchases		
– the largest supplier	**59.6**	53.5
– five largest suppliers combined	**97.9**	96.7
Turnover		
– the largest customer	**4.3**	4.5
– five largest customers combined	**10.3**	12.5

None of the Directors or any of their associates (as defined in Listing Rules) on the Stock Exchange) or any shareholders (who, to the knowledge of the Directors, own more than 5% of the Company's share capital) had any beneficial interests in the Group's five largest customers or five largest suppliers.

DIRECTORS

The Directors of the Company during the year and up to the date of this report were as follows:

Executive Directors

XU Tie-liang *(Chairman & Chief Executive Officer)*
QU Guo-hua (Resigned as Chief Executive Officer on 4 November 2009)
CHEUNG Shing

Independent Non-Executive Directors

LI Yunlong
SHI Xun-zhi
PENG Long
WANG Guangtian (Appointed on 4 November 2009)

In accordance with Bye-law 86(2), Mr. Wang Guangtian, being Director appointed after the last annual general meeting of the Company, shall retire and, being eligible, offered himself for re-election at the forthcoming annual general meeting of the Company to be held on 20 May 2010 ("2010 AGM").

In accordance with Bye-law 87(1), Messrs. Qu Guo-hua, Li Yunlong and Peng Long shall retire from office as Directors by rotation at the 2010 AGM. Messrs. Li Yunlong and Peng Long, being eligible, offered themselves for re-election, and Mr. Qu Guo-hua confirmed that he will not offer himself for re-election.

INDEPENDENCE CONFIRMATION

The Company has received, from each of the independent non-executive Directors, an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive Directors are independent.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

DIRECTORS' SERVICE CONTRACTS

None of the Directors who are proposed for re-election at the 2010 AGM has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

No Director had a significant beneficial interest, either directly or indirectly, in any contract of significant to the business of the Group to which the Group or any of its subsidiaries was a party during the year.

DIRECTORS' INTERESTS IN SHARES

At 31 December 2009, the interests or short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO"), which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provision of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code"), are set out below:

Interests in shares, underlying shares and debentures of the Company

Name of Director	Capacity	Long position/ Short position	*Notes*	Number of ordinary shares held	Percentage of the Company's issued share capital
Xu Tie-liang	Interest in a controlled corporation	Long position	1	321,018,300	7.20%
	Interest in a controlled corporation	Long position	2	775,000,000	17.39%

Notes:

1. These 321,018,300 ordinary shares of the Company are held through Sino Advance Holdings Limited ("Sino Advance"), a company incorporated in the British Virgin Islands with limited liability and is wholly owned by Sino Best International Group Limited ("Sino Best") (a company incorporated in the British Virgin Islands with limited liability) which is in turn wholly and beneficially owned by Mr. Xu Tie-liang.

2. These 775,000,000 ordinary shares of the Company are held through Sino Vantage Management Limited ("Sino Vantage"), a company incorporated in the British Virgin Islands and is wholly owned by Sino Best which is in turn wholly and beneficially owned by Mr. Xu Tie-liang.

Save as disclosed above, none of the Directors or chief executives of the Company had any interests or short positions in shares, underlying shares or debentures of the Company which were recorded on the register required to be kept under section 352 of the SFO or notified to the Company and the Stock Exchange pursuant to the Model Code as at 31 December 2009.

SUBSTANTIAL SHAREHOLDERS

At 31 December 2009, the interests or short positions of every person in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO, are set out below:

Interests in the shares and underlying shares of the Company

Name of shareholder	Capacity	Long position/ Short position	*Notes*	Number of ordinary shares held	Percentage of the Company's issued share capital
Sino Advance	Beneficial owner	Long position	1	321,018,300	7.20%
Sino Vantage	Beneficial owner	Long position	1	775,000,000	17.39%
Sino Best	Interest in controlled corporations	Long position	1	1,096,018,300	24.59%
New Stamina Investments Limited	Beneficial owner	Long position	2	275,000,000	6.17%
Lo Chung	Interest in controlled corporations	Long position	2	275,000,000	6.17%
	Family interest	Long position	3	17,400,000	0.39%

Notes:

1. Sino Advance and Sino Vantage are wholly owned by Sino Best which are in turn wholly and beneficially owned by Mr. Xu Tie-liang. Hence, Mr. Xu is deemed to be interested in 321,018,300 ordinary shares and 775,000,000 ordinary shares of the Company held through Sino Advance and Sino Vantage.

2. New Stamina Investments Limited ("New Stamina") is a company incorporated in the British Virgin Islands and is wholly and beneficially owned by Mr. Lo Chung. Hence, Mr. Lo Chung is deemed to be interested in 275,000,000 ordinary shares of the Company held through New Stamina.

3. These 17,400,000 ordinary shares are held by the spouse of Mr. Lo Chung, and therefore, Mr. Lo Chung is deemed to be interested in these shares.

Save as disclosed above, no other parties were recorded in the register of the Company required to be kept under section 336 of the SFO as having interests or short positions in the shares or underlying shares of the Company as at 31 December 2009.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the Directors. Having made specific enquiry of all Directors, the Company confirmed that all Directors have complied with the required standard set out in the Model Code.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained a sufficient public float as required under the Listing Rules during the period and up to the date of this report.

CORPORATE GOVERNANCE

A report on the principle corporate governance practices adopted by the Company is set out on pages 29 to 35 of the annual report.

AUDIT COMMITTEE

The Company established an audit committee ("Audit Committee") in 1998 with written terms of reference in compliance with the CG Code. The Audit Committee comprises four independent non-executive Directors, namely Mr. Li Yunlong, Mr. Shi Xun-zhi, Mr. Peng Long and Mr. Wang Guangtian. The Audit Committee has reviewed the audited financial statements of the Group for the year ended 31 December 2009.

AUDITOR

A resolution will be submitted to the 2010 AGM to re-appoint Ting Ho Kwan & Chan as auditor of the Company.

On behalf of the Board
China Oil And Gas Group Limited
Xu Tie-liang
Chairman

Hong Kong, 8 April 2010

The Company is committed to maintain good corporate governance standard and procedures to ensure the integrity, transparency and quality of disclosure in order to enhance the shareholders' value.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has adopted the code provisions set out in the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 to the Listing Rules, which came into effect on 1 January 2005.

During the year ended 31 December 2009, the Company was in compliance with the code provisions set out in the CG Code except for the deviations from code provisions A.2.1 and A.4.1.

Code provision A.2.1. of the CG Code provides that the responsibilities between the chairman and chief executive officer should be divided. Following the resignation of Mr. Qu Guo-hua as chief executive officer on 4 November 2009, Mr. Xu Tie-liang, the Chairman of the Company, was appointed as the chief executive officer. The Board believes that vesting the roles of both Chairman and chief executive officer in the same person has the benefit of ensuring consistent leadership within the Group and enables more effective and efficient overall strategic planning for the Group. The Board believes that the balance of power and authority for the present arrangement will not be impaired and is adequately ensured by current Board which comprises experienced and high calibre individuals with sufficient number thereof being independent non-executive Directors.

Code provision A.4.1. of the CG Code provides that non-executive Directors should be appointed for a specific term and subject to re-election. The independent non-executive Directors (except Mr. Wang Guangtian) are not appointed for a specific term but they are subject to retirement by rotation at least once every three years in accordance with the Bye-laws of the Company.

Save as the aforesaid and in the opinion of the Directors, the Company has met the code provisions set out in the CG Code during the year ended 31 December 2009.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the code of conduct regarding directors' securities transactions as set out in the Model Code. All the Directors have confirmed that they have complied with the required standards as set out in the Model Code throughout the year.

BOARD OF DIRECTORS

The Board is responsible for the leadership and control of the Company and oversees the Group's businesses, strategic decisions and performance. The management was delegated the authority and responsibility by the Board for the management of the Group. In addition, the Board has also delegated various responsibilities to the Board Committees. Further details of these committees are set out in this report.

The Board currently consists of seven Directors including three executive Directors and four independent non-executive Directors:

Executive Directors

Mr. XU Tie-liang *(Chairman & Chief Executive Officer)*
Mr. QU Guo-hua
Mr. CHEUNG Shing

Independent Non-Executive Directors

Mr. LI Yunlong
Mr. SHI Xun-zhi
Mr. PENG Long
Mr. WONG Guangtian

The Board members have no financial, business, family or other material/relevant relationships with each other. Such balanced Board composition is formed to ensure strong independence exists across the Board and has met the recommended practice under the CG Code for the Board to have at least one-third of its members comprising independent non-executive Directors. The composition of the Board reflects the balanced skills and experience for effective leadership. The biographical information of the Directors are set out on pages 19 to 22 under the section headed "Biographical Details of Directors".

The Board decides on corporate strategies, approves overall business plans and evaluates the Group's financial performance and management. Specific tasks that the Board delegates to the Group's management include the implementation of strategies approved by the Board, the monitoring of operating budgets, the implementation of internal controls procedures, and the ensuring of compliance with relevant statutory requirements and other rules and regulations.

Chairman and Chief Executive Officer

Following the resignation of Mr. Qu Guo-hua as chief executive officer of the Company on 4 November 2009, the Company does not have a separate Chairman and chief executive officer and Mr. Xu Tie-liang currently performs these two roles. The Board believes that vesting the roles of both Chairman and chief executive officer in the same person has the benefit of ensuring consistent leadership within the Group and enables more effective and efficient overall strategic planning for the Group. The Board believes that the balance of power and authority for the present arrangement will not be impaired and is adequately ensured by current Board which comprises experienced and high calibre individuals with sufficient number thereof being independent non-executive Directors.

Non-executive Directors

The four independent non-executive Directors are persons of high caliber, with academic and professional qualifications in the fields of accounting, finance and petroleum. With their experience gained from various sectors, they provide strong support towards the effective discharge of the duties and responsibilities of the Board. Each independent non-executive Director gives an annual confirmation of his independence to the Company, and the Company considered each of them is independent under Rule 3.13 of the Listing Rules.

The independent non-executive Directors (except Mr. Wang Guangtian) are not appointed for specific term and are subject to retirement by rotation in accordance with the Bye-laws.

Board Meetings

The Board has four scheduled meetings a year at quarterly interval and additional meetings will be held as and when required. The four scheduled Board meetings for a year are planned in advance. During the regular meetings of the Board, the Board reviewed the operation and financial performance and reviewed and approved the annual and interim results.

During the year ended 31 December 2009, the Board held 12 meetings. All Directors are given an opportunity to include any matters in the agenda for regular Board meetings, and are given sufficient time to review documents and information relating to matters to be discussed in Board meetings in advance.

Name of Director	Number of attendance
XU Tie-liang	12/12
QU Guo-hua	11/12
CHEUNG Shing	12/12
LI Yunlong	10/12
SHI Xun-zhi	11/12
PENG Long	12/12
WANG Guangtian*	1/1

* *Mr. Wang Guangtian was appointed on 4 November 2009, 1 meeting was held after his appointment.*

Board minutes are kept by the Company Secretary and are open for inspection by the Directors. Every Board member is entitled to have access to Board papers and related materials and has unrestricted access to the advice and services of the Company Secretary, and has the liberty to seek external professional advice if so required.

NOMINATION OF DIRECTORS

In considering the nomination of new Directors, the Board will take into account the qualification, ability, working experience, leadership and professional ethics of the candidates, especially their experience in the natural gas industry and/or other professional area.

The Company established the Nomination Committee with written terms of reference, on 15 March 2006 and currently consists of three independent non-executive Directors, namely Mr. WANG Guangtian (as chairman), Mr. PENG Long and Mr. LI Yunlong, and one executive Director, namely Mr. CHEUNG Shing.

The function of the Nomination Committee are reviewing and supervising the structure, size and composition of the Board, identifying qualified individuals to become members of the Board, assessing the independence of the independent non-executive Directors and making recommendations to the Board on the appointment or re-appointment of Directors.

During the year ended 31 December 2009, the Nomination Committee held 2 meetings to assess the independency of the independent non-executive Directors, and to consider the appointment of new Director and re-election of Directors.

Name of member	Number of attendance
WANG Guangtian*	–
PENG Long	2/2
LI Yunlong	2/2
CHEUNG Shing	2/2

* *Mr. Wang Guangtian was appointed on 4 November 2009, no meeting was held after his appointment.*

REMUNERATION OF DIRECTORS

The Company established the Remuneration Committee with written terms of reference on 13 January 2006 and currently consists of three independent non-executive Directors, namely Mr. LI Yunlong (as chairman), Mr. PENG Long and Mr. WANG Guangtian, and one executive Director, namely Mr. CHEUNG Shing.

The functions of the Remuneration Committee are establishing and reviewing the policy and structure of the remuneration for the Directors and senior management.

During the year ended 31 December 2009, the Remuneration Committee held 2 meetings for making recommendation of the remuneration of the proposed new Director and reviewed the remuneration packages of the Directors and senior management.

Name of member	Number of attendance
LI Yunlong	2/2
PENG Long	2/2
CHEUNG Shing	2/2
WANG Guangtian*	–

* *Mr. Wang Guangtian was appointed on 4 November 2009, no meeting was held after his appointment.*

The Company has adopted a share option scheme on 31 January 2002. The purpose of the share option scheme is to enable the Board to grant options to selected eligible participants to motivate them and to optimize their performance and efficiency for the benefit of the Group. Details of the share option scheme are set out in the Report of the Directors. The emolument payable to Directors will depend on their respective contractual terms under the employment agreements, if any, and as recommended by the Remuneration Committee. Details of the Directors' remuneration are set out in note 10 to the audited financial statements.

AUDIT COMMITTEE

The Company established the Audit Committee in 1998. The Audit Committee of the Company comprises four independent non-executive Directors, namely Mr. LI Yunlong (as chairman), Mr. SHI Xun-zhi, Mr. PENG Long and Mr. WANG Guangtian.

The Audit Committee is mainly responsible for making recommendations to the Board on the appointment, re-appointment and removal of the external auditors and to approve the remuneration and terms of engagement of the external auditors, and any questions of resignation or dismissal of such auditors; reviewing the quarterly, interim and annual reports and accounts of the Group; and overseeing the Company's financial reporting system and internal control procedures.

Terms of reference adopted by the Audit Committee on 13 January 2006 are aligned with the code provisions set out in the CG Code.

The Audit Committee meets the external auditors at least two times a year to discuss any area of concern during the audits or review. The Audit Committee reviews the interim and annual reports before submission to the Board. The Audit Committee focuses not only on the impact of the changes in accounting policies and practices but also on the compliance with accounting standards, the Listing Rules and the legal requirements in the review of the Company's interim and annual report.

During the year ended 31 December 2009, the Audit Committee held 2 meetings.

Name of member	**Number of attendance**
LI Yunlong	2/2
PENG Long	2/2
SHI Xun-zhi	1/2
WANG Guangtian*	–

* *Mr. Wang Guangtian was appointed on 4 November 2009, no meeting was held after his appointment.*

During the year ended 31 December 2009, the Audit Committee reviewed the annual and interim results of the Group, which were in the opinion of the Audit Committee that the preparation of such results complied with the applicable accounting standards and the Listing Rules. The Audit Committee noted the existing internal control system of the Group and also noted that review of the same will be carried out annually.

AUDITOR'S REMUNERATION

During the year under review, the remuneration paid/payable to the Company's auditor, Ting Ho Kwan & Chan, is set out below:–

Services rendered	**Fee paid/payable** HK$'000
Audit services	1,032
Non-audit services	–
	1,032

VOTING BY POLL

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of shareholders at a general meeting must be taken by poll.

INVESTOR RELATIONS

The Company is committed to a policy of open and regular communication and reasonable disclosure of information to its shareholders. Information of the Company is disseminated to the shareholders in the following manner:

- Delivery of annual and interim results and reports to all shareholders;
- Publication of announcements on the annual and interim results on the Stock Exchange website, and issue of other announcements and shareholders' circulars in accordance with the continuing disclosure obligations under the Listing Rules; and
- The general meeting of the Company is also an effective communication channel between the Board and shareholders.

The Chairman of the Company attended the 2009 annual general meeting of the Company to answer questions of the meeting.

DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Board acknowledges its responsibility to prepare the Company's financial statements for each financial period which gives a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. In preparing the financial statements for the year ended 31 December 2009, the Board has selected suitable accounting policies and applied them consistently; made judgments and estimates that are prudent, fair and reasonable and prepared the accounts on a going concern basis. The Directors are responsible for taking all reasonable and necessary steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Directors, having made appropriate enquiries, consider that the Group has adequate resources to continue in operational existence for the foreseeable future and that, for this reason, it is appropriate to adopt the going concern basis in preparing the financial statements.

INTERNAL CONTROL

Management had implemented a system of internal control to provide reasonable assurance that the Group's assets are safeguarded, proper accounting records are maintained, appropriate legislation and regulations are complied with, reliable financial information are provided for management and publication purpose and investment and business risks affecting the Group are identified and managed.

During the year ended 31 December 2009, the Board has conducted a review of the system of internal control to ensure the effectiveness and adequacy of the system. The Board shall conduct such review at least once annually.

TING HO KWAN & CHAN
CERTIFIED PUBLIC ACCOUNTANTS

9th Floor, Tung Ning Building
249-253 Des Voeux Road Central
Hong Kong

香港德輔道中249-253號
東寧大廈9字樓

丁何關陳會計師行

TO THE SHAREHOLDERS OF
CHINA OIL AND GAS GROUP LIMITED
(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of China Oil And Gas Group Limited (the "Company") set out on pages 38 to 119, which comprise the consolidated and company balance sheets as at 31 December 2009, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2009 and of the profit and cash flows of the Group for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

TING HO KWAN & CHAN
Certified Public Accountants (Practising)

Hong Kong, 8 April 2010

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
Turnover	6	**1,721,138**	1,471,364
Cost of sales		**(1,312,676)**	(1,119,397)
Gross profit		**408,462**	351,967
Other income and gains, net	8	**44,969**	17,784
Selling and distribution costs		**(21,521)**	(16,507)
Administrative expenses		**(109,808)**	(110,115)
Operating profit		**322,102**	243,129
Finance costs	9	**(16,703)**	(24,489)
Share of (losses)/profits of associates		**(18)**	2,488
Profit before taxation		**305,381**	221,128
Taxation	12	**(52,609)**	(34,085)
Profit for the year	13	**252,772**	187,043
Other comprehensive income:			
Exchange differences on translating foreign operations		**(2,056)**	40,807
Total comprehensive income for the year		**250,716**	227,850
Profit attributable to:			
Equity holders of the Company	15	**132,090**	73,025
Minority interests		**120,682**	114,018
		252,772	187,043
Total comprehensive income attributable to:			
Equity holders of the Company		**130,916**	95,665
Minority interests		**119,800**	132,185
		250,716	227,850
Earnings per share	16		
– Basic		**2.963 cents**	1.750 cents
– Diluted		**2.960 cents**	N/A

The notes on pages 45 to 119 are an integral part of these financial statements.

Consolidated Balance Sheet

As at 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
Non-current assets			
Property, plant and equipment	17	**1,213,519**	1,004,165
Leasehold land and land use rights	18	**72,095**	33,825
Goodwill	19	**627,068**	627,258
Other intangible assets	20	**5,127**	3,802
Interest in an associate	22	**2,461**	–
Available-for-sale financial assets	23	**452**	499
Total non-current assets		**1,920,722**	1,669,549
Current assets			
Inventories	24	**54,040**	46,286
Financial assets at fair value through profit or loss	25	**57,537**	19,517
Deposits, trade and other receivables	26	**262,603**	326,165
Cash and cash equivalents	27	**1,069,717**	731,151
Total current assets		**1,443,897**	1,123,119
Current liabilities			
Trade and other payables	28	**727,109**	555,099
Bank and other borrowings	29	**338,540**	240,573
Current tax payable		**14,225**	22,568
Total current liabilities		**1,079,874**	818,240
Net current assets		**364,023**	304,879
Total assets less current liabilities		**2,284,745**	1,974,428
Non-current liabilities			
Bank and other borrowings	29	**51,592**	64,749
Deferred tax liabilities	31	**10,405**	5,851
Total non-current liabilities		**61,997**	70,600
Net assets		**2,222,748**	1,903,828

Consolidated Balance Sheet

As at 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
Equity			
Capital and reserves attributable to the Company's equity holders			
Share capital	32	**44,579**	44,579
Reserves		**1,587,493**	1,454,245
		1,632,072	1,498,824
Minority interests		**590,676**	405,004
Total equity		**2,222,748**	1,903,828

The financial statements were approved and authorised for issue by the Board of directors on 8 April 2010.

Xu Tie-liang
Director

Cheung Shing
Director

The notes on pages 45 to 119 are an integral part of these financial statements.

Balance Sheet

As at 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
Non-current assets			
Interests in subsidiaries	21	**1,147,675**	1,272,697
Current assets			
Other receivables		**1**	–
Cash and cash equivalents	27	**56,831**	4,381
Total current assets		**56,832**	4,381
Current liabilities			
Other payables		**4,020**	4,000
Net current assets		**52,812**	381
Net assets		**1,200,487**	1,273,078
Equity			
Capital and reserves attributable to the Company's equity holders			
Share capital	32	**44,579**	44,579
Reserves	33	**1,155,908**	1,228,499
Total equity		**1,200,487**	1,273,078

The financial statements were approved and authorised for issue by the Board of directors on 8 April 2010.

Xu Tie-liang
Director

Cheung Shing
Director

The notes on pages 45 to 119 are an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2009

Group	Attributable to equity holders of the Company										
	Issued share capital HK$'000	Share premium account HK$'000	Capital redemption reserve HK$'000	Other capital reserve HK$'000	Convertible notes reserve HK$'000	Exchange fluctuation reserve HK$'000	Share option reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Minority interests HK$'000	Total HK$'000
At 1 January 2008	38,172	1,809,511	800	23,626	17,907	24,906	–	(659,750)	1,255,172	287,013	1,542,185
Change in equity for 2008:											
Exchange differences on translating foreign operations	–	–	–	–	–	22,640	–	–	22,640	18,167	40,807
Profit for the year	–	–	–	–	–	–	–	73,025	73,025	114,018	187,043
Total comprehensive income for the year	–	–	–	–	–	22,640	–	73,025	95,665	132,185	227,850
Repurchase of own shares	(93)	(1,301)	93	–	–	–	–	(93)	(1,394)	–	(1,394)
Conversion of convertible notes	6,500	160,788	–	–	(17,907)	–	–	–	149,381	–	149,381
Minority interests arising from acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	11,857	11,857
Dividend paid to minority interests	–	–	–	–	–	–	–	–	–	(26,051)	(26,051)
At 31 December 2008	44,579	1,968,998*	893*	23,626*	–*	47,546*	–*	(586,818)*	1,498,824	405,004	1,903,828
Change in equity for 2009:											
Exchange differences on translating foreign operations	–	–	–	–	–	(1,174)	–	–	(1,174)	(882)	(2,056)
Profit for the year	–	–	–	–	–	–	–	132,090	132,090	120,682	252,772
Total comprehensive income for the year	–	–	–	–	–	(1,174)	–	132,090	130,916	119,800	250,716
Bonus shares issued on capitalisation of retained profits by a subsidiary	–	–	–	57,854	–	–	–	(57,854)	–	–	–
Equity-settled share-based payments	–	–	–	–	–	–	2,332	–	2,332	–	2,332
Capital injection by minority interests	–	–	–	–	–	–	–	–	–	85,872	85,872
Dividend paid to minority interests	–	–	–	–	–	–	–	–	–	(20,000)	(20,000)
At 31 December 2009	44,579	1,968,998*	893*	81,480*	–*	46,372*	2,332*	(512,582)*	1,632,072	590,676	2,222,748

* *These reserve accounts comprise the consolidated reserves of HK$1,587,493,000 (2008: HK$1,454,245,000) in the consolidated balance sheet.*

The notes on pages 45 to 119 are an integral part of these financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
Cash flows from operating activities			
Profit for the year		**252,772**	187,043
Adjustments for:			
Taxation		**52,609**	34,085
Finance costs		**16,703**	24,489
Interest income		**(3,211)**	(13,798)
Dividend income		**(942)**	(370)
Share of losses/(profits) of associates		**18**	(2,488)
Bad debts written off		**219**	405
Equity-settled share-based payments		**2,332**	–
Amortisation of other intangible assets		**56**	44
Impairment losses of available-for-sale financial assets		**47**	1,043
Depreciation of property, plant and equipment		**79,045**	45,653
Amortisation of leasehold land and land use rights		**1,675**	657
Loss on disposal of property, plant and equipment and leasehold land and land use rights		**1,832**	34
(Gain)/loss on disposal of financial assets at fair value through profit or loss		**(30,210)**	2,779
Fair value (gains)/losses on financial assets at fair value through profit or loss		**(1,164)**	16,950
		371,781	296,526
Changes in working capital:			
Increase in financial assets at fair value through profit or loss		**(6,646)**	(23,027)
Increase in inventories		**(5,587)**	(17,266)
Decrease/(increase) in deposits, trade and other receivables		**62,443**	(85,816)
Increase in trade and other payables		**173,238**	198,022
Cash generated from operations		**595,229**	368,439
Taxation paid		**(56,306)**	(30,837)
Net cash generated from operating activities		**538,923**	337,602

Consolidated Statement of Cash Flows

For the year ended 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
Cash flows from investing activities			
Interest received		**3,211**	13,798
Dividend received		**942**	370
Purchases of property, plant and equipment and leasehold land and land use rights		**(343,732)**	(448,995)
Proceeds from disposal of property, plant and equipment and leasehold land and land use rights		**9,160**	1,104
Purchases of other intangible assets		**(1,384)**	(1,929)
Net cash outflow on acquisition of subsidiaries	35	**–**	(90,828)
Capital injection by minority interests		**85,872**	–
Net cash outflow on acquisition of associates	22	**(2,479)**	(14,426)
Net cash used in investing activities		**(248,410)**	(540,906)
Cash flows from financing activities			
Interest paid		**(16,703)**	(21,044)
New borrowings raised		**433,465**	253,032
Repayment of borrowings		**(348,026)**	(128,417)
Dividend paid to minority interests		**(20,000)**	(26,051)
Payment for repurchase of own shares		**–**	(1,394)
Net cash generated from financing activities		**48,736**	76,126
Net increase/(decrease) in cash and cash equivalents		**339,249**	(127,178)
Cash and cash equivalents at beginning of the year		**731,151**	839,166
Effect of foreign exchange rate changes		**(683)**	19,163
Cash and cash equivalents at end of the year	27	**1,069,717**	731,151

The notes on pages 45 to 119 are an integral part of these financial statements.

1. GENERAL

China Oil And Gas Group Limited (the "Company") was incorporated in Bermuda as an exempted company with limited liability. Its shares have been listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 28 May 1993. The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The principal place of business of the Company is Suite 2805, 28th Floor, Sino Plaza, 255-257 Gloucester Road, Causeway Bay, Hong Kong. The Company is an investment holding company. The principal activities of its principal subsidiaries are set out in note 21.

2. STATEMENT OF COMPLIANCE WITH HONG KONG FINANCIAL REPORTING STANDARDS

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"), which also include Hong Kong Accounting Standards ("HKAS") and Interpretations ("Int") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). The consolidated financial statements have been prepared under the historical cost convention, as modified by revaluation of available-for-sale financial assets and financial assets at fair value through profit or loss, which are carried at fair value. A summary of significant accounting policies adopted by the Group is set out in note 3.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 5.

The HKICPA has issued certain new and revised HKFRS that are first effective or available for early adoption for the current accounting period of the Group. Note 4 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years, unless otherwise stated.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December.

Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interests. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets of the subsidiary acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated statement of comprehensive income.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Minority interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between minority interests and the equity shareholders of the Company.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Subsidiaries *(continued)*

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less any accumulated impairment losses. The results of the subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Associates

The Group's investments in their associates are accounted for under the equity method of accounting. These associates are entities over which the Group has significant influence over their management, including participation in the financial and operating policy decision, generally accompanying a shareholding of between 20% and 50% of the voting rights and which are neither subsidiaries nor jointly controlled entities.

The investments in associates are carried in the consolidated balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associate, less any accumulated impairment losses. The consolidated statement of comprehensive income reflects the Group's share of the results of operations of the associates. The Group's interests in their associates include goodwill (net of accumulated impairment) on acquisition, which is treated in accordance with the accounting policy for goodwill stated below.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Intangible assets

(i) Goodwill

Goodwill represents the excess of the cost of a business combination or an investment in an associate over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Intangible assets *(continued)*

(i) *Goodwill (continued)*

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note below). In respect of associates, the carrying amount of goodwill is included in the carrying amount of the interest in the associate and the investment as a whole is tested for impairment whenever there is objective evidence of impairment (see note below).

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination or an investment in an associate is recognised immediately in profit or loss.

On disposal of a cash generating unit and an associate during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(ii) *Exclusive rights*

Exclusive rights are shown at historical cost. Exclusive rights have definite useful lives and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of exclusive rights over their estimated useful lives of ranging from 30 to 48 years for natural gas supply services.

(iii) *Club membership*

Investment in club membership is shown at historical cost. Investment in club membership has indefinite useful life and is tested annually for impairment and carried at cost less accumulated impairment losses and is not amortised.

(iv) *Operating system*

Operating system is shown at historical cost. Operating system has definite useful life and is carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of operating system over its estimated useful lives of 10 years.

Property, plant and equipment

All property, plant and equipment are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment *(continued)*

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the statement of comprehensive income during the financial year in which they are incurred.

Property, plant and equipment, other than construction in progress, are depreciated at the following annual rates sufficient to write off their costs less any accumulated impairment losses and residual values (if any) over their estimated useful lives. The principal annual rates and methods used for this purpose are as follows:

Buildings	4%-8% on the straight-line basis
Leasehold improvements	Over the lease terms
Plant and machinery	15% on the reducing balance basis
	5%-33.3% on the straight-line basis
Pipelines	5% on the straight-line basis
Motor vehicles	25% on the reducing balance basis
	10%-20% on the straight-line basis
Furniture, fixtures and equipment	15%-20% on the reducing balance basis
	5%-20% on the straight-line basis
Tools and moulds	33.3% on the straight-line basis

The assets' residual values (if any) and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. The gain or loss on derecognition of the asset, calculated as the difference between the net disposal proceeds and the carrying amount of the item, is included in the statement of comprehensive income in the period the item is derecognised.

Construction in progress represents pipelines under construction and is stated at cost less any accumulated impairment losses, and is not depreciated. Costs comprise direct and indirect incremental costs of acquisition or construction. Completed items are transferred from construction in progress to proper categories of property, plant and equipment when they are ready for their intended use.

Leasehold land and land use rights

Leasehold land and land use rights are lump sum upfront payments to acquire long-term interest in lessee-occupied properties. Leasehold land and land use rights relating to buildings of the Group are stated at cost and are amortised over the period of the lease on the straight-line basis to the statement of comprehensive income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial assets

Regular purchases and sales of financial assets are recognised on the trade date when the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the statement of comprehensive income. At each balance sheet date, the Group assesses whether there is any objective evidence that a financial asset or a group of financial assets is impaired, such as a significant or prolonged decline in the fair value of an investment in an equity investment below its costs. Financial assets other than investments in subsidiaries, associates and jointly controlled entities are further categorised into the following classifications for the measurement after initial recognition.

(i) *Financial assets at fair value through profit or loss*

Investments in securities held for trading are classified as financial assets at fair value through profit or loss included in current assets and are stated in the balance sheet at fair value. Derivatives are also categorised as held for trading unless they are designated as hedges. Any attributable transaction costs and gain or loss on the fair value changes of financial assets at fair value through profit or loss are recognised in profit or loss.

(ii) *Held-to-maturity investments*

Investment in debt securities with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity are classified as held-to-maturity investments, which are measured at amortised cost using the effective interest method, less impairment losses, if any.

(iii) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date which are classified as non-current assets. The Group's loans and receivables comprise "Deposit, trade and other receivables" and "Cash and cash equivalents" in the consolidated balance sheet.

(iv) *Available-for-sale financial assets*

Investments other than those held for trading and held to maturity are classified as available-for-sale financial assets and are stated in the balance sheet at fair value. Gain or loss on fair value changes of available-for-sale financial assets is recognised in other comprehensive income and accumulated separately in equity in the fair value reserve, except for impairment losses and foreign exchange gains and losses resulting from changes in the amortised cost of monetary items such as debt securities which are recognised directly in profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial assets *(continued)*

(iv) Available-for-sale financial assets (continued)

When the available-for-sale financial assets are derecognised, the cumulative gain or loss is reclassified from equity to profit or loss. Where the available-for-sale financial assets are interest-bearing, interest calculated using the effective interest method is recognised in profit or loss.

When a decline in the fair value of an available-for-sale financial assets has been recognised in equity and there is objective evidence that the asset is impaired, the cumulative loss recognised from equity to profit or loss even though the financial assets has not been derecognised.

The amount of the cumulative loss that is removed from equity and reclassified to profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that financial assets previously recognised in profit or loss.

Impairment losses recognised in profit or loss for an investment in an equity instruments classified as available-for-sale are not reversed through profit or loss. Any subsequent increase in the fair value of such investment is recognised in other comprehensive income and accumulated separately in equity in the fair value reserve. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. Impairment losses are written off against the corresponding investments directly.

Investments in unquoted equity instruments whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, are measured at cost less any impairment losses. If there is objective evidence that an impairment loss has been incurred on such instrument, the amount of impairment loss is measured as the difference between its carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar instrument. Such impairment losses are not reversed.

Fair value of an instrument on initial recognition is normally the transaction prices, unless it is estimated by using a valuation technique when part of the consideration given or received is for something other than the investments.

After initial recognition, the fair value of an investment quoted in an active market is based on the current bid price and, for investments not quoted in an active market, the Group establishes the fair value of such investment by using a valuation technique where appropriate.

Valuation techniques include using recent arm's length market transactions between knowledgeable willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flows analysis and option pricing models.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At each balance sheet date, the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately to profit or loss, except where the derivatives qualify for cash flow hedge accounting or hedge the net investment in a foreign operation, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged.

Inventories

Inventories are stated at the lower of cost and net realisable value.

Cost of raw material is determined using the first-in, first-out method. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less all costs to completion and all direct costs to be incurred in selling and distribution. Costs of inventories include the transfer from equity of any gains/losses on qualifying cash flow hedges relating to purchases of raw materials.

Trade and other receivables

Trade and other receivables are initially recognised at fair value, and after initial recognition, at amortised cost less any allowance for impairment of bad and doubtful debts, except for the following receivables:

– interest-free loans made to related parties without any fixed repayment terms or the effect of discounting being immaterial, that are measured at cost less any allowance for impairment of bad and doubtful debts, and

– short-term receivables with no stated interest rate and the effect of discounting being immaterial, that are measured at their original invoiced amount less any allowance for impairment of bad and doubtful debts.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of assets

(i) *Impairment of investments in debt and equity securities and other receivables*

Investments in debt and equity securities (other than investments in subsidiaries: see note (ii) below) and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

– For investment in an associate recognised using the equity method, the impairment loss is measured by comparing the recoverable amount of the investment as a whole with its carrying amount in accordance with note (ii) below. The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note (ii) below.

– For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities carried at cost are not reversed.

– For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of assets *(continued)*

(i) Impairment of investments in debt and equity securities and other receivables (continued)

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

– For available-for-sale financial assets, the cumulative loss that has been recognised in the fair value reserve is reclassified to profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised in other comprehensive income.

Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in profit or loss.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivables included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment (other than properties carried at revalued amounts);

– land and land use rights classified as being held under an operating lease;

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of assets *(continued)*

(ii) Impairment of other assets (continued)

- intangible assets;
- investments in subsidiaries (except for those classified as held for sale or included in a disposal group that is classified as held for sale); and
- goodwill

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

- Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash flows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

- Recognition of impairment losses

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating units (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

- Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Cash and cash equivalents

Cash and cash equivalents comprises cash at bank and on hand, demand deposits with bank and other financial institutions, and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities (if any) measured in accordance with accounting policy stated below, trade and other payables are subsequently stated at amortised cost, except for the following payables:

– short-term payables with no stated interest rate and the effect of discounting being immaterial, that are measured at their original invoiced amount; and

– interest-free loans from related parties without any fixed repayment terms or the effect of discounting being immaterial, that are measured at cost.

Bank and other borrowings

Bank and other borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Bank and other borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method.

Bank and other borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Convertible notes

Convertible notes that can be converted to equity share capital at the option of the holder, where the number of shares that would be issued on conversion and the value of the consideration that would be received at that time do not vary, are accounted for as compound financial instruments which contain both a liability component and an equity component.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Convertible notes *(continued)*

An initial recognition the liability component of the convertible notes is measured as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar liabilities that do not have a conversion option. Any excess of proceeds over the amount initially recognised as the liability component is recognised as the equity component. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds.

The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method. The equity component is recognised in the capital reserve until either the note is converted or redeemed.

If the note is converted, the capital reserve, together with the carrying amount of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the note is redeemed, the capital reserve is released directly to accumulated losses.

Foreign currency translation

(i) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in HK dollars, which is the Company's functional and the Group's presentation currency.

(ii) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income, except those arising from foreign currency borrowings used to hedge a net investment in a foreign operation which are recognised in other comprehensive income.

Translation differences on non-monetary items, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are recognised in other comprehensive income and accumulated separately in equity in the fair value reserve.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currency translation *(continued)*

(iii) *Group companies*

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

– assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

– income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

– all resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange fluctuation reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are recognised in other comprehensive income and accumulated separately in equity in exchange fluctuation reserve. When a foreign operation is sold, such exchange differences are reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the year-end closing rate.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and the costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) *Sales of goods*

Sales of goods are recognised when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition *(continued)*

(ii) *Sales and distribution of natural gas*

Sales and distribution of natural gas are recognised when the goods are delivered and title has passed.

(iii) *Gas pipeline construction and connection fee income*

Gas pipeline construction and connection fee income is recognised when the relevant construction works are substantially completed and connection services are rendered.

(iv) *Interest income*

Interest income is recognised as it accrues using the effective interest method.

(v) *Transportation income*

Transportation income is recognised when the services are rendered.

(vi) *Dividend income*

Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

Employee benefits

(i) *Retirement benefit costs*

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme in Hong Kong (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the statement of comprehensive income as they become payable in accordance with the rules of the MPF Scheme. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

(ii) *Employee entitlements*

Employee entitlements to annual leave and long service payment are recognised when they accrue to the employees. A provision is made for the estimated liability for annual leave and long service payment as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity or paternity leave are not recognised until the time of leave.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Employee benefits *(continued)*

(iii) *Share-based payments*

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in the share option reserve within equity. The fair value is measured at grant date using the Black-Scholes-Merton Option Pricing Model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the share option reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the share option reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the share option reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to accumulated losses).

Financial guarantees issued, provisions and contingent liabilities

(i) *Financial guarantees issued*

Financial guarantees are contracts that require the issuer (ie. the guarantor) to make specified payment to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note (iii) below if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee, i.e. the amount initially recognised, less accumulated amortisation.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial guarantees issued, provisions and contingent liabilities *(continued)*

(ii) Contingent liabilities acquired in business combinations

Contingent liabilities acquired as part of a business combination are initially recognised at fair value, provided the fair value can be reliably measured. After their initial recognition at fair value, such contingent liabilities are recognised at the higher of the amount initially recognised, less accumulated amortisation where appropriate, and the amount that would be determined in accordance with note (iii) below. Contingent liabilities acquired in a business combination that cannot be reliably fair valued are disclosed in accordance with note (iii) below.

(iii) Other provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Income taxes

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates (and laws) enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided in full, using the liability method, on temporary differences arising between tax bases of assets and liabilities and their carrying amounts in the financial statements. However, if the deferred tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. The amount of deferred tax is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income taxes *(continued)*

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax assets also arise from unused tax losses and unused tax credits.

At each balance sheet date, the Group reviews and assesses the recognised and unrecognised deferred tax assets and the future taxable profit to determine whether any recognised deferred tax assets should be derecognised and any unrecognised deferred tax assets should be recognised.

Deferred tax asset is provided on temporary differences arising on investments in subsidiaries and associate, except where the timing of the reversal of the temporary differences is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. Other borrowing costs are expensed in profit or loss in the period in which they are incurred. The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of such borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payment made under operating leases, net of any incentives received from the lessor, are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Related parties *(continued)*

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of the key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

4. CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued certain new and revised HKFRS that are first effective for the current accounting period of the Group as follows:

HKAS 1 (Revised 2007)	Presentation of Financial Statements
HKAS 23 (Revised)	Borrowing Costs
HKAS 27 (Amendments)	Consolidated and Separate Financial Statements – Cost of Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKAS 32 and HKAS 1 (Amendments)	Puttable Financial Instruments and Obligation Arising on Liquidation
HKFRS 2 (Amendments)	Share-based Payment – Vesting Conditions and Cancellations
Amendments to HKFRS 7, Financial Instruments	Disclosures – Improving Disclosures about Financial Statements
HKFRS 8	Operating Segments
HKFRSs (Amendments)	Improvements to HKFRSs (2008)
HK(IFRIC)-Int 9 & HKAS 39	Embedded Derivatives
HK(IFRIC)-Int 13	Customer Loyalty Programmes
HK(IFRIC)-Int 15	Agreements for the Construction of Real Estate
HK(IFRIC)-Int 16	Hedges of a Net Investment in a Foreign Operation
HK(IFRIC)-Int 18	Transfer of Assets from Customers

Note 3 summarise the accounting policies of the Group, after the adoption of these developments to the extent that they are relevant to the Group. The adoption of the above new or revised HKFRS had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented except that the following set out information on the significant changes in accounting policies for the current and prior accounting periods reflected in these financial statements. Accordingly, no prior period adjustment has been made.

(a) HKAS 1 (Revised 2007) – "Presentation of Financial Statements"

As a result of the adoption of HKAS 1 (Revised 2007), details of changes in equity during the period arising from transactions with equity shareholders in their capacity as such have been presented separately from all other income and expense in a revised statement of changes in equity. All other terms of income and expense are presented either in a one-statement (i.e. a single "Statement of Comprehensive Income") or a two-statement (i.e. an "Income Statement" together with a "Statement of Comprehensive Income") approach. Corresponding amounts have been restated to conform to the new presentation. This change in presentation has no effect on reported profit or loss, total income and expense or net assets for any period presented.

4. CHANGES IN ACCOUNTING POLICIES *(continued)*

(b) HKFRS 7 – "Financial Instruments: Disclosures"

As a result of the adoption of the amendments to HKFRS 7, the financial statements include expanded disclosures in note 41(C) about the fair value measurement of the Group's financial instruments, categorising these fair value measurements into a three-level fair value hierarchy according to the extent to which they are based on observable market data. The Group has taken advantage of the transitional provisions set out in the amendments to HKFRS 7, under which comparative information for the newly required disclosures about the fair value measurements of financial instruments has not been provided.

(c) HKFRS 8 – "Operating Segments"

HKFRS 8 requires segment disclosure to be based on the way that the Group's chief operating decision maker regards and manages the Group, with the amounts reported for each reportable segment being the measures reported to the Group's chief operating decision maker for the purposes of assessing segment performance and making decisions about operating matters. This contrasts with the presentation of segment information in prior years which was based on a disaggregation of the Group's financial statements into segments based on related products and services and on geographical areas. The adoption of HKFRS 8 has resulted in the presentation of segment information in a manner that is more consistent with internal reporting provided to the Group's most senior executive management, and has resulted in additional reportable segments being identified and presented (see note 7). Corresponding amounts have been provided on a basis consistent with the revised segment information.

(d) HKAS 27 (Amendments) – "Consolidated and Separate Financial Statements – Cost of Investment in a Subsidiary, Jointly Controlled Entity or Associate"

The amendments to HKAS 27 have removed the requirement that dividends out of pre-acquisition profits should be recognised as a reduction in the carrying amount of the investment in the investee, rather than as income. As a result, as from 1 January 2009, all dividends receivable from subsidiaries, associates and jointly controlled entities, whether out of pre- or post-acquisition profits, will be recognised in the Company's profit or loss and the carrying amount of the investment in the investee will not be reduced unless that carrying amount is assessed to be impaired as a result of the investee declaring the dividend. In such cases, in addition to recognising dividend income in profit or loss, the Company would recognise an impairment loss. In accordance with the transitional provisions in the amendment, this new policy will be applied prospectively to any dividends receivable in the current or future periods and previous periods have not been restated.

4. CHANGES IN ACCOUNTING POLICIES *(continued)*

(e) HKFRSs (Amendments) – "Improvements to HKFRSs (2008)"

The "Improvements to HKFRSs (2008)" comprise a number of minor and non-urgent amendments to a range of HKFRSs which the HKICPA has issued as an omnibus batch of amendments. Of these, the following amendment has resulted in changes to the Group's accounting policies:

As a result of amendments to HKAS 28, Investments in associates, impairment losses recognised in respect of the associates and jointly controlled entities carried under the equity method are no longer allocated to the goodwill inherent in that carrying value. As a result, when there has been a favourable change in the estimates used to determine the recoverable amount, the impairment loss will be reversed. Previously, the Group allocated impairment losses to goodwill and, in accordance with the accounting policy for goodwill, did not consider the loss to be reversible. In accordance with the transitional provisions in the amendment, this new policy will be applied prospectively to any impairment losses that arise in the current of future periods and previous periods have not been restated.

The Group has not early applied any new standard, amendment or interpretation that has been issued but is not yet effective for the current accounting period (see note 44).

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group's management makes assumptions, estimates and judgements in the process of applying the Group's accounting policies that affect the assets, liabilities, income and expenses in the financial statements prepared in accordance with HKFRS. The assumptions, estimates and judgements are based on historical experience and other factors that are believed to be reasonable under the circumstances. While the management reviews their judgements, estimates and assumptions continuously, the actual results will seldom equal to the estimates.

(a) Key assumption and other key sources of estimation uncertainty

Certain key assumptions and risk factors in respect of the financial risk management are set out in note 41. Other key sources of estimation uncertainty that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are set out as follows:

(i) *Estimated impairment of goodwill*

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 3. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (note 19).

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

(a) Key assumption and other key sources of estimation uncertainty *(continued)*

(ii) Income tax

The Group is subject to income taxes in Hong Kong and the PRC. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(b) Critical judgements in applying the Group's accounting policies

Impairment of available-for-sale financial assets

The Group follows the guidance of HKAS 39 on determining when an available-for-sale financial asset is impaired. This determination requires significant judgement. In making this judgement, the Group evaluates, among other factors, the duration and extent to which the fair value of such financial asset is less than its cost; and the financial health of and short-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

6. TURNOVER

Turnover represents the net amounts received and receivable for gas pipeline connection and construction services, sales and distribution of natural gas and other related products. Analysis of the Group's turnover for the year is as follows:

	Group	
	2009	2008
	HK$'000	HK$'000
Sales and distribution of natural gas and other related products	**1,504,160**	1,330,302
Gas pipeline connection and construction services income	**216,978**	141,062
	1,721,138	1,471,364

7. SEGMENT INFORMATION

The Group has adopted HKFRS 8 Operating Segments with effect from 1 January 2009. HKFRS 8 is a disclosure standard that requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker for the purpose of allocating resources to segments and assessing their performance. The chief operating decision makers of the Group are the Group's executive directors. In contrast, the predecessor Standard (HKAS 14 Segment Reporting) required an entity to identify two sets of segments (business and geographical), using a risks and returns approach, with the entity's system of internal financial reporting to key management personnel serving only as the starting point for the identification of such segments. As a result, following the adoption of HKFRS 8, the identification of the Group's reportable segments has changed.

In prior years, no business and geographical segment information is presented because the Group is engaged in one business segment which is derived from natural gas business and the Group's revenue is mainly generated in the PRC and almost all of its assets are located in the PRC. However, information reported to the Group's executive directors for the purposes of resource allocation and assessment of performance focuses more specifically on sales of natural gas and gas pipeline construction and connection. The Group's reportable segments under HKFRS 8 are therefore as follows:

– sales and distribution of natural gas and other related products

– gas pipeline construction and connection

No operating segments have been aggregated to form the above reportable segments.

Intersegment revenue is eliminated on consolidation. Intersegment sales and transactions are conducted in accordance with the terms mutually agreed between the parties. The amounts reported for the prior year have been restated in conformity with the current year's presentation.

The Board assesses the performance of the business segments based on profit before taxation without allocation of finance income/(costs) and share of profits/(losses) of associates, which is consistent with these in the financial statements.

Information regarding the Group's reportable segments as provided to the Board for the purpose of resources allocation and assessment of segment performance for the years ended 31 December 2009 and 2008 is set out below.

7. SEGMENT INFORMATION *(continued)*

Business segments

For the year ended 31 December 2009:

	Sales and distribution of natural gas and other related products HK$'000	Gas pipeline construction and connection HK$'000	Group HK$'000
Segment revenue and results			
Sales to external customers	1,506,108	215,030	1,721,138
Segment results	229,120	74,821	303,941
Interest income			3,211
Gain on disposal of financial assets at fair value through profit or loss			30,210
Fair value gains on financial assets at fair value through profit or loss			1,164
Impairment losses of available-for-sale financial assets			(47)
Finance costs			(16,703)
Share of loss of an associate			(18)
Unallocated corporate expenses			(16,377)
Profit before taxation			305,381
Taxation			(52,609)
Profit for the year			252,772

7. SEGMENT INFORMATION *(continued)*

Business segments *(continued)*

For the year ended 31 December 2009:

	Sales and distribution of natural gas and other related products HK$'000	Gas pipeline construction and connection HK$'000	Unallocated HK$'000	Group HK$'000
Segment assets and liabilities				
Assets				
Segment assets	1,407,729	83,779	–	1,491,508
Goodwill				627,068
Interest in an associate				2,461
Unallocated corporate assets				1,243,582
Consolidated total assets				3,364,619
Liabilities				
Segment liabilities	748,501	196,087	–	944,588
Unallocated corporate liabilities				197,283
Consolidated total liabilities				1,141,871
Other information				
Capital additions	336,322	6,170	1,240	343,732
Depreciation	78,204	167	674	79,045
Amortisation of leasehold land and land use rights	1,627	48	–	1,675
Amortisation of other intangible assets	56	–	–	56

7. SEGMENT INFORMATION *(continued)*

Business segments *(continued)*

For the year ended 31 December 2008:

	Sales and distribution of natural gas and other related products HK$'000	Gas pipeline construction and connection HK$'000	Group HK$'000
Segment revenue and results			
Sales to external customers	1,330,302	141,062	1,471,364
Segment results	214,221	50,782	265,003
Interest income			13,798
Loss on disposal of financial assets at fair value through profit or loss			(2,779)
Fair value losses on financial assets at fair value through profit or loss			(16,950)
Impairment losses of available-for-sale financial assets			(1,043)
Finance costs			(24,489)
Share of profits of associates			2,488
Unallocated corporate expenses			(14,900)
Profit before taxation			221,128
Taxation			(34,085)
Profit for the year			187,043

7. SEGMENT INFORMATION *(continued)*

Business segments *(continued)*

For the year ended 31 December 2008:

	Sales and distribution of natural gas and other related products HK$'000	Gas pipeline construction and connection HK$'000	Unallocated HK$'000	Group HK$'000
Segment assets and liabilities				
Assets				
Segment assets	1,288,997	58,142	–	1,347,139
Goodwill				627,258
Unallocated corporate assets				818,271
Consolidated total assets				2,792,668
Liabilities				
Segment liabilities	537,053	102,877	–	639,930
Unallocated corporate liabilities				248,910
Consolidated total liabilities				888,840
Other information				
Capital additions	448,707	216	72	448,995
Depreciation	44,792	161	700	45,653
Amortisation of leasehold land and land use rights	657	–	–	657
Amortisation of other intangible assets	44	–	–	44

No external customers of the Group contributed over 10% of the Group's revenue for the years ended 31 December 2008 and 2009.

Analysis of the Group's turnover and results as well as analysis of the Group's carrying amount of segment assets and additions to property, plant and equipment by geographical market has not been presented as over 90% of the Group's revenue and business activities are conducted in the PRC.

8. OTHER INCOME AND GAINS, NET

	Group	
	2009	2008
	HK$'000	HK$'000
Interest income	**3,211**	13,798
Dividend income from available-for-sale financial assets		
– listed shares in Hong Kong	**942**	370
Gain on disposal of financial assets at fair value through profit or loss	**30,210**	–
Fair value gains on financial assets at fair value through profit or loss	**1,164**	–
Others	**9,442**	3,616
	44,969	17,784

9. FINANCE COSTS

	Group	
	2009	2008
	HK$'000	HK$'000
Interest on:		
Bank borrowings	**16,029**	14,826
Other borrowings		
– not wholly repayable within five years	**651**	–
– wholly repayable within five years	**–**	5,200
Securities trading account	**23**	5
Convertible notes (note 30)	**–**	4,458
	16,703	24,489

10. DIRECTORS' REMUNERATION

	Group 2009 HK$'000	Group 2008 HK$'000
Fees	**360**	332
Salaries, allowances and benefits in kind	**5,247**	7,209
Retirement benefits scheme contributions	**12**	12
	5,619	7,553

Details of remuneration of directors for the year ended 31 December 2009 were as follows:

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Retirement benefits scheme contributions HK$'000	Total HK$'000
Executive directors:				
Xu Tie-liang	–	4,204	12	4,216
Qu Guo-hua	–	782	–	782
Cheung Shing	–	261	–	261
Independent non-executive directors:				
Shi Xun-zhi	120	–	–	120
Peng Long	120	–	–	120
Li Yun-long	100	–	–	100
Wang Guang-tian (appointed on 4 November 2009)	20	–	–	20
Total	360	5,247	12	5,619

During the year, no remuneration was waived by any executive directors (2008: Nil).

10. DIRECTORS' REMUNERATION *(continued)*

Details of remuneration of directors for the year ended 31 December 2008 were as follows:

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Retirement benefits scheme contributions HK$'000	Total HK$'000
Executive directors:				
Xu Tie-liang	–	6,000	12	6,012
Qu Guo-hua	–	939	–	939
Zeng Xiao (resigned on 30 December 2008)	–	120	–	120
Cheung Shing	–	150	–	150
Independent non-executive directors:				
Cheung Man Yau, Timothy (resigned on 2 June 2008)	50	–	–	50
Shi Xun-zhi	120	–	–	120
Peng Long	120	–	–	120
Li Yun-long (appointed on 18 April 2008)	42	–	–	42
Total	332	7,209	12	7,553

11. FIVE HIGHEST PAID INDIVIDUALS

Of the five individuals with the highest remunerations in the Group, two (2008: two) were directors of the Group whose emoluments are included in the disclosures in note 10 above. The emoluments of the remaining three (2008: three) individuals were as follows:

	Group	
	2009	2008
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**2,026**	2,173
Equity-settled share-based payments	**697**	–
Retirement benefits scheme contributions	**12**	29
	2,735	2,202

The number of employee whose remuneration fell within the following band was as follows:

	Number of employees	
	2009	2008
HK$ Nil to HK$1,000,000	**2**	3
HK$1,000,001 to HK$1,500,000	**1**	–

In addition to the above, certain employees were granted share options of the Company during the year. (2008: Nil). Details of the share options schemes are set out in note 34.

No emoluments were paid or payable to the above highest paid individuals as an inducement to join the Group or as compensation for loss of office during the financial year ended 31 December 2009 and 2008.

12. TAXATION

Pursuant to the income tax rules and regulations of the PRC, provision for PRC enterprise income tax is calculated based on a statutory rate of 25% (2008: 25%) of the assessable profits of the companies within the Group, except for certain subsidiaries in the PRC which are entitled to exemption from PRC enterprise income tax for the first two years commencing from their first profit-making year of operation and thereafter, these subsidiaries will be entitled to a 50% relief from PRC enterprise income tax for the following three years. PRC enterprise income tax has been provided for after taking these tax incentives into account.

No provision for Hong Kong profits tax has been made for those companies subject to Hong Kong profits tax within the Group as these subsidiaries did not have any assessable profits for the year (2008: Nil).

	Group	
	2009	2008
	HK$'000	HK$'000
Current tax:		
Hong Kong Profits Tax		
– current year	**–**	–
– overprovision in prior years	**(2,054)**	–
Taxation outside Hong Kong	**50,097**	33,997
Deferred tax:		
Deferred taxation relating to the origination and reversal of temporary differences (note 31)	**4,566**	88
Taxation charge	**52,609**	34,085

A reconciliation of the tax expense applicable to profit before taxation using the statutory rates for the countries in which the Company and its subsidiaries are domiciled to the tax expense using the domestic taxation rates applicable to the profit of the consolidated companies is as follows:

	Group	
	2009	2008
	HK$'000	HK$'000
Profit before taxation	**305,381**	221,128
Tax calculated at the domestic tax rate of 16.5% (2008: 16.5%)	**50,388**	36,486
Tax effect of income not subject to taxation	**(28,494)**	(17,318)
Tax effect of expenses not deductible for tax purpose	**23,507**	8,776
Overprovision in profits tax in prior years	**(2,054)**	–
Effect of different tax rates of its subsidiaries	**9,262**	6,141
Taxation charge	**52,609**	34,085

13. PROFIT FOR THE YEAR

This has been arrived at after charging:

	Group	
	2009	2008
	HK$'000	HK$'000
Staff costs (excluding directors' remuneration (note 10)):		
Salaries and wages	**43,503**	28,043
Equity-settled share-based payments	**2,332**	–
Retirement benefits scheme contributions	**94**	89
	45,929	28,132
Minimum lease payments under operating leases for leasehold land and buildings	**6,347**	4,853
Auditors' remuneration	**1,088**	1,433
Depreciation of property, plant and equipment	**79,045**	45,653
Bad debts written off	**219**	405
Amortisation of leasehold land and land use rights	**1,675**	657
Loss on disposal of property, plant and equipment and leasehold land and land use rights	**1,832**	34
Impairment losses of available-for-sale financial assets	**47**	1,043
Fair value losses on financial assets at fair value through profit or loss	**–**	16,950
Loss on disposal of financial assets at fair value through profit or loss, net	**–**	2,779
Amortisation of other intangible assets	**56**	44
Loss on exchange, net	**114**	1,299
Share of associates' taxation	**–**	246

14. DIVIDEND

No dividend was paid or proposed during the current financial year, nor has any dividend been proposed since the balance sheet date (2008: Nil).

15. LOSS FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The loss for the year attributable to equity holders of the Company dealt with in the financial statements of the Company amounted to HK$74,923,000 (2008: profit of HK$12,221,000).

16. EARNINGS PER SHARE

(a) Basic earnings per share

	2009 HK Cents per share	2008 HK Cents per share
Basic earnings per share	**2.963**	1.750

The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows:

	2009 HK$'000	2008 HK$'000
Profit for the year attributable to equity holders of the Company	**132,090**	73,025
Earnings used in the calculation of basic earnings per share	**132,090**	73,025

	2009 Number of shares	2008 Number of shares
Weighted average number of ordinary shares for the purposes of basic earnings per share	**4,457,856,213**	4,173,757,142

16. EARNINGS PER SHARE *(continued)*

(b) Diluted earnings per share

	2009 HK Cents per share	2008 HK Cents per share
Diluted earnings per share	**2.960**	N/A

The calculation of the diluted earnings per share for the year is based on the profit attributable to equity holders of the Company of HK$132,090,000 and the weighted average number of 4,462,279,729 shares which is the weighted average number of shares in issue during the year plus the weighted average number of 4,423,516 shares deemed to be issued at no consideration if all outstanding options had been exercised.

	2009 HK$'000
Profit for the year attributable to equity holders of the Company	**132,090**
Earnings used in the calculation of diluted earnings per share	**132,090**

	2009 Number of shares
Weighted average number of ordinary shares for the purpose of basic earnings per share	**4,457,856,213**
Effect of deemed issue of shares under the Company's share option schemes	**4,423,516**
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**4,462,279,729**

Diluted earnings per share for 2008 was not presented as there were no potential dilutive ordinary shares outstanding during the year ended 31 December 2008.

17. PROPERTY, PLANT AND EQUIPMENT

Group

	Leasehold buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Pipelines HK$'000	Construction in progress HK$'000	Motor vehicles HK$'000	Furniture, fixtures and equipment HK$'000	Tools and moulds HK$'000	Total HK$'000
Cost									
At 1 January 2008	41,482	379	2,778	423,957	64,974	50,594	19,276	2,898	606,338
Currency realignment	2,626	–	176	26,840	4,113	3,072	1,193	184	38,204
Acquisition of subsidiaries	12,774	–	13,483	45,250	3,406	782	621	69	76,385
Additions	4,674	–	1,829	6,664	322,794	93,548	9,491	3,250	442,250
Transfers	12,700	–	127,223	51,309	(191,681)	–	500	(51)	–
Disposals	(131)	–	–	–	–	(158)	(981)	(305)	(1,575)
At 31 December 2008	74,125	379	145,489	554,020	203,606	147,838	30,100	6,045	1,161,602
Currency realignment	(153)	–	(299)	(1,141)	(419)	(300)	(61)	(12)	(2,385)
Reclassification	39,903	–	75,153	(99,637)	–	(7,163)	(9,065)	809	–
Additions	2,157	–	96,855	15,844	178,867	10,709	2,684	2,339	309,455
Transfers	49,604	–	56,147	207,385	(325,269)	–	1,892	734	(9,507)
Disposals	(3,303)	–	(6,297)	(568)	–	(1,145)	(1,255)	(20)	(12,588)
At 31 December 2009	162,333	379	367,048	675,903	56,785	149,939	24,295	9,895	1,446,577
Accumulated depreciation and impairment									
At 1 January 2008	5,348	224	956	73,078	–	7,332	5,185	637	92,760
Currency realignment	339	–	60	4,626	–	444	310	40	5,819
Acquisition of subsidiaries	1,745	–	4,718	7,236	–	174	322	15	14,210
Depreciation	1,394	155	3,853	27,151	–	10,158	2,456	486	45,653
Eliminated on disposals	(41)	–	–	–	–	(62)	(697)	(205)	(1,005)
At 31 December 2008	8,785	379	9,587	112,091	–	18,046	7,576	973	157,437
Currency realignment	(18)	–	(20)	(231)	–	(35)	(15)	(2)	(321)
Reclassification	1,301	–	13,378	(14,056)	–	(412)	(581)	370	–
Depreciation	8,494	–	18,087	27,478	–	21,257	2,515	1,214	79,045
Eliminated on disposals	(52)	–	(1,190)	(23)	–	(716)	(1,108)	(14)	(3,103)
At 31 December 2009	18,510	379	39,842	125,259	–	38,140	8,387	2,541	233,058
Net book value									
At 31 December 2009	143,823	–	327,206	550,644	56,785	111,799	15,908	7,354	1,213,519
At 31 December 2008	65,340	–	135,902	441,929	203,606	129,792	22,524	5,072	1,004,165

17. PROPERTY, PLANT AND EQUIPMENT *(continued)*

The analysis of the net book value of buildings is as follows:

	Group	
	2009	2008
	HK$'000	HK$'000
Outside Hong Kong:		
– long leases	**–**	33,933
– medium-term leases	**143,823**	31,407
	143,823	65,340

Note: As at 31 December 2009, Pipelines, motor vehicles and furniture, fixture and equipment were reclassified and shown under separate headings of leasehold buildings, plant and machinery and tools and moulds respectively. The reclassifications were made at their carrying amounts, with no financial impact on net assets and profit of the Group for the current and prior accounting periods.

18. LEASEHOLD LAND AND LAND USE RIGHTS

	Group 2009 HK$'000	Group 2008 HK$'000
Cost		
At beginning of the year	**36,262**	27,145
Currency realignment	**(75)**	1,718
Acquisition of subsidiaries	**–**	1,222
Additions	**34,277**	6,745
Transfers	**7,245**	–
Disposals	**(1,914)**	(568)
At end of the year	**75,795**	36,262
Accumulated amortisation and impairment		
At beginning of the year	**2,437**	1,619
Currency realignment	**(5)**	102
Acquisition of subsidiaries	**–**	59
Amortisation for the year	**1,675**	657
Written back on disposals	**(407)**	–
At end of the year	**3,700**	2,437
Net book value		
At end of the year	**72,095**	33,825

The Group's interests in leasehold land and land use rights represent prepaid operating lease payments and their net book values are analysed as follows:

	Group 2009 HK$'000	Group 2008 HK$'000
Outside Hong Kong:		
– long leases	**–**	7,022
– medium-term leases	**72,095**	26,803
	72,095	33,825

19. GOODWILL

	Group	
	2009	2008
	HK$'000	HK$'000
Cost		
At beginning of the year	**627,258**	558,305
Currency realignment	**(190)**	4,435
Acquisition of subsidiaries (note 35)	**–**	64,518
At end of the year	**627,068**	627,258
Accumulated impairment losses		
At beginning and end of the year	**–**	–
Carrying amount		
At end of the year	**627,068**	627,258

In accordance with the Group's accounting policies, the Group has assessed the recoverable amount of goodwill arising from acquisition of the subsidiaries by reference to the cash-generating unit's value-in-use and determined that such goodwill has not been impaired. The recoverable amounts of the cash-generating units were determined based on value-in-use calculations, which use cash flow projections based on financial budgets approved by management covering the operation period of the business with a discount rate of 14%. The discount rate used reflects specific risks relating to the business.

20. OTHER INTANGIBLE ASSETS

	Group			
	Exclusive rights	Club membership	Operating system	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Cost				
At 1 January 2008 (note a)	1,982	–	–	1,982
Currency realignment	125	–	–	125
Additions (note b)	–	1,929	–	1,929
At 31 December 2008	2,107	1,929	–	4,036
Currency realignment	(4)	–	–	(4)
Additions (note c & d)	908	–	476	1,384
At 31 December 2009	3,011	1,929	476	5,416
Accumulated amortisation and impairment				
At 1 January 2008	179	–	–	179
Currency realignment	11	–	–	11
Charge for the year	44	–	–	44
At 31 December 2008	234	–	–	234
Currency realignment	(1)	–	–	(1)
Charge for the year	52	–	4	56
At 31 December 2009	285	–	4	289
Carrying amount				
At 31 December 2009	2,726	1,929	472	5,127
At 31 December 2008	1,873	1,929	–	3,802

Notes:

a: The exclusive right arising from the acquisition of a subsidiary, 南昌中油燃氣有限責任公司 which was granted to operate in gas pipeline infrastructure and natural gas supply services for 48 years.

b: The club membership arising from the investment of club membership in the PRC which has indefinite useful life and is tested annually for impairment.

c: The exclusive right of approximately HK$908,000 was acquired by a subsidiary, 南京潔寧燃氣有限公司 to operate in gas pipeline infrastructure and natural gas supply services for 30 years.

d: The computer operating system of approximately HK$476,000 was acquired by a subsidiary, China City Natural Gas Co., Ltd., which has a definite useful life of 10 years.

21. INTERESTS IN SUBSIDIARIES

	Company	
	2009	2008
	HK$'000	HK$'000
Unlisted shares, at cost	**1**	1
Amounts due from subsidiaries	**1,188,521**	1,834,538
Amounts due to subsidiaries	**(8,847)**	(23,342)
	1,179,675	1,811,197
Allowance for impairment of doubtful debts	**(32,000)**	(538,500)
	1,147,675	1,272,697

The amounts due from/(to) subsidiaries are unsecured, interest-free and have no fixed terms of repayments. In the opinion of the directors, the amounts due will not be settled or repayable within 12 months from the balance sheet date and are therefore shown as non-current.

The amounts due from subsidiaries of HK$139,672,000 (2008: HK$723,186,000) were impaired. The amount of allowance was HK$32,000,000 as at 31 December 2009 (2008: HK$538,500,000). It is assessed that a portion of these receivables is expected to be recovered. The individually impaired receivables mainly relate to subsidiaries which are in financial difficulties and they are of ages over several years. The other amounts due from subsidiaries do not contain impaired assets.

The movements on the allowance for impairment of doubtful debts are as follows:

	Company	
	2009	2008
	HK$'000	HK$'000
At beginning of the year	**538,500**	566,000
Impairment loss reversed	**–**	(27,500)
Impairment loss recognised	**20,500**	–
Uncollectable amounts written off	**(527,000)**	–
At end of the year	**32,000**	538,500

21. INTERESTS IN SUBSIDIARIES *(continued)*

Details of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued share capital/ registered capital	Percentage of equity attributable to the Company Directly	Indirectly	Principal activities
Profaith Group Limited	British Virgin Islands/Hong Kong	US$1	100	–	Investment holding
All Praise Investments Limited	British Virgin Islands/Hong Kong	US$1	100	–	Investment holding
Alta Financial Holdings Limited	British Virgin Islands/Hong Kong	US$1,000	–	100	Investment holding
Best On Development Ltd	British Virgin Islands/Hong Kong	US$1	–	100	Investment holding
Real Million Investments Limited	British Virgin Islands/Hong Kong	US$1	–	100	Investment holding
Winner Sheen Limited	British Virgin Islands/Hong Kong	US$1	–	100	Investment holding
Zhongda Industrial Group Inc.	British Virgin Islands/Hong Kong	US$10,000	–	100	Investment holding
Accelstar Pacific Limited	British Virgin Islands/Hong Kong	US$50,000	–	100	Investment holding
Qingyun Petro-Tech Co., Ltd.	PRC	HK$4,000,000	–	100	Operation of natural gas station
濱州賽德天然氣壓縮技術有限公司	PRC	US$630,000	–	100	Operation and construction of natural gas station

21. INTERESTS IN SUBSIDIARIES *(continued)*

Details of the principal subsidiaries are as follows: *(continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued share capital/ registered capital	Percentage of equity attributable to the Company Directly	Percentage of equity attributable to the Company Indirectly	Principal activities
China Oil And Gas (Ping Xiang) Company Limited	PRC	HK$45,000,000	–	100	Trading of natural gas and gas pipeline construction
萍鄉中油物流有限公司	PRC	RMB3,000,000	–	100	Transportation services
Plentigreat Holdings Limited	British Virgin Islands/Hong Kong	US$10,000	–	100	Investment holding
南京潔寧燃氣有限公司	PRC	HK$157,000,000	–	100	Investment holding, construction of natural gas station and trading of natural gas
江蘇永潔燃氣有限公司	PRC	HK$5,000,000	–	100	Operation of natural gas station
江蘇高佳物流有限公司	PRC	RMB28,000,000	–	100	Transportation services
Star Charm Holdings Limited	British Virgin Islands/Hong Kong	US$50,000	–	100	Investment holding
Majestic International Limited	Hong Kong	HK$10,000	–	100	Investment holding
西寧市天環能源有限公司	PRC	HK$2,500,000	–	100	Operation of natural gas station
西寧中油燃氣技術開發有限公司	PRC	RMB5,000,000	–	79.3	Operation of natural gas station

21. INTERESTS IN SUBSIDIARIES *(continued)*

Details of the principal subsidiaries are as follows: *(continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued share capital/ registered capital	Percentage of equity attributable to the Company Directly	Percentage of equity attributable to the Company Indirectly	Principal activities
西寧利和天然氣開發有限公司	PRC	RMB2,815,000	–	70.6	Operation of natural gas station
Vast China Group Limited	British Virgin Islands/Hong Kong	US$1	–	100	Investment holding
馬鞍山高佳能源有限公司	PRC	HK$12,000,000	–	100	Operation of natural gas station
安徽中油燃氣有限公司	PRC	RMB18,000,000	–	80.4	Trading of natural gas and gas pipeline construction
馬鞍山中油燃氣物流有限公司	PRC	RMB15,000,000	–	80.4	Transportation services
China Oil And Gas (Shandong) Company Limited	Hong Kong	HK$1	–	100	Investment holding
南通中油燃氣有限責任公司	PRC	RMB15,000,000	–	60.4	Trading of natural gas and gas pipeline construction
Ming Sheng Hong Kong Limited	Hong Kong	HK$6,538	–	100	Investment holding
江西昌北中油燃氣有限責任公司	PRC	HK$20,000,000	–	80	Trading of natural gas and gas pipeline construction

21. INTERESTS IN SUBSIDIARIES *(continued)*

Details of the principal subsidiaries are as follows: *(continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued share capital/ registered capital	Percentage of equity attributable to the Company Directly	Indirectly	Principal activities
南昌中油燃氣有限責任公司	PRC	RMB20,000,000	–	88.4	Trading of natural gas and gas pipeline construction
China City Natural Gas Co., Ltd	PRC	RMB400,151,974	–	51	Investment holding and trading of natural gas
醴陵中油燃氣有限責任公司	PRC	RMB30,000,000	–	30.6	Trading of natural gas and gas pipeline construction
湖南中油燃氣有限責任公司	PRC	RMB27,000,000	–	30.6	Natural gas transmission though pipeline
濱州中油燃氣有限責任公司	PRC	RMB20,000,000	–	40.8	Trading of natural gas and gas pipeline construction
惠民中油燃氣有限責任公司	PRC	RMB8,000,000	–	50.5	Trading of natural gas and gas pipeline construction
慶雲中油燃氣有限責任公司	PRC	RMB2,000,000	–	50	Trading of natural gas and gas pipeline construction

21. INTERESTS IN SUBSIDIARIES *(continued)*

Details of the principal subsidiaries are as follows: *(continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued share capital/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Directly	Indirectly	
西寧中油燃氣有限責任公司	PRC	RMB65,874,000	–	40.8	Trading of natural gas, gas pipeline construction and operation of natural gas stations
青海中泰中油燃氣技術開發有限公司	PRC	RMB12,000,000	–	45.9	Production and trading of liquefied natural gas
西寧中油城市燃氣工程設計諮詢有限公司	PRC	RMB800,000	–	47.2	Gas pipeline design
西寧中油久安燃氣設備有限公司	PRC	RMB500,000	–	32.6	Trading of gas pipeline materials
青海宏利燃氣管道安裝工程有限責任公司	PRC	RMB15,000,000	–	40.8	Gas pipeline construction
青海中油壓縮天然氣銷售有限公司	PRC	RMB20,000,000	–	40.8	Trading of natural gas
青海中油甘河工業園區燃氣有限公司	PRC	RMB26,000,000	–	60.4	Trading of natural gas and gas pipeline construction
揚州中泰燃氣有限責任公司	PRC	RMB15,000,000	–	80.4	Trading of natural gas and gas pipeline construction

21. INTERESTS IN SUBSIDIARIES *(continued)*

Details of the principal subsidiaries are as follows: *(continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued share capital/ registered capital	Percentage of equity attributable to the Company Directly	Indirectly	Principal activities
江都中油燃氣有限責任公司	PRC	RMB40,000,000	–	76	Trading of natural gas and gas pipeline construction
泰州中油燃氣有限責任公司	PRC	RMB15,000,000	–	51	Trading of natural gas and gas pipeline construction
潮州中油燃氣有限公司	PRC	RMB30,000,000	–	51	Trading of natural gas and gas pipeline construction
中油中泰物流（珠海）有限公司	PRC	RMB10,000,000	–	51	Transportation services
英德中油燃氣有限公司	PRC	RMB1,000,000	–	51	Trading of natural gas and gas pipeline construction
青海東部中油燃氣有限公司	PRC	RMB10,000,000	–	26	Natural gas transmission through pipeline
青海中油管道燃氣有限公司	PRC	RMB20,000,000	–	51	Natural gas transmission through pipeline
海安中油燃氣有限責任公司	PRC	RMB10,000,000	–	51	Gas pipeline design and construction, natural gas transmission through pipeline

21. INTERESTS IN SUBSIDIARIES *(continued)*

Details of the principal subsidiaries are as follows: *(continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued share capital/ registered capital	Percentage of equity attributable to the Company Directly	Percentage of equity attributable to the Company Indirectly	Principal activities
安義中油燃氣有限責任公司	PRC	RMB36,000,000	–	51	Trading of natural gas and gas pipeline construction
南京潔誠能源投資有限公司	PRC	RMB8,000,000	–	55	Construction of natural gas-related projects

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

22. INTEREST IN AN ASSOCIATE

	Group 2009 HK$'000	Group 2008 HK$'000
Share of net assets:		
At beginning of the year	–	–
Additions	**2,268**	14,426
Share of (losses)/profits of associates	**(18)**	2,488
Effect of acquisition of further interests in associates which are then recognised as subsidiaries (note 35)	–	(16,914)
At end of the year	**2,250**	–
Amount due from an associate	**211**	–
	2,461	–

22. INTEREST IN AN ASSOCIATE *(continued)*

The amount due from an associate is unsecured, interest free and has no fixed terms of repayment. None of the amount due is either past due or impaired.

During the year, a subsidiary of the Company, 南京潔寧燃氣有限公司 invested RMB2,000,000 to acquire 40% of the equity interest of 江蘇潔寧金港燃氣有限公司.

On 14 January 2008, a subsidiary of the Company, 西寧中油燃氣有限責任公司 entered into sale and purchase agreements with certain individual third parties, which were the shareholders of 西寧利和天然氣開發有限公司 and 西寧中油燃氣技術開發有限公司. Pursuant to the agreements, 西寧中油燃氣有限責任公司 agreed to acquire 49.73% and 35% registered capital with a consideration of RMB5,640,000 and RMB7,050,000 respectively. The agreements had been completed in 2008 and these two companies became the associates of the Company. The goodwill arose from the acquisition of these associates amounted to HK$8,221,000.

As at 31 December 2008, the Group further acquired the registered capital of these two companies. As a result, the Group owned 70.6% and 79.3% interests in 西寧利和天然氣開發有限公司 and 西寧中油燃氣技術開發有限公司 respectively. They became subsidiaries of the Group as at 31 December 2008.

Details of the Group's associate as at 31 December 2009 together with its summarised financial information are as follows:

Name	Registered capital	Country of incorporation	Principal activities	Assets HK$'000	Liabilities HK$'000	Revenue HK$'000	Loss HK$'000	Percentage of interest held indirectly
江蘇潔寧金港燃氣有限公司	RMB5,000,000	PRC	Operation of natural gas station	5,859	233	–	(46)	40

23. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group	
	2009	2008
	HK$'000	HK$'000
Equity investments listed outside Hong Kong, at fair value	**2**	49
Unlisted debt securities in Hong Kong, at cost	**450**	450
	452	499

As at 31 December 2009, the fair value of available-for-sale financial assets amounted to HK$1,560 (2008: HK$49,000), for which impairment loss of HK$47,440 (2008: HK$1,043,000) had been made in current financial year.

Unlisted debt securities of the Group are not stated at fair value but at cost less any accumulated impairment losses, because they do not have a quoted market price on active market, the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed.

24. INVENTORIES

The following is an analysis of inventories at the balance sheet date:

	Group	
	2009	2008
	HK$'000	HK$'000
Raw materials	**20,062**	38,001
Work-in-progress	**27,232**	4,896
Finished goods and natural gas	**6,746**	3,389
	54,040	46,286

25. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2009	2008
	HK$'000	HK$'000
Listed equity investments, at fair value:		
– Hong Kong	**57,313**	19,517
– Overseas	**224**	–
	57,537	19,517

As at 31 December 2009, approximately HK$5,750,000 (2008: HK$1,228,000) of the above financial assets at fair value through profit or loss were pledged to a financial creditor to secure general facilities granted to the Group.

26. DEPOSITS, TRADE AND OTHER RECEIVABLES

	Group	
	2009	2008
	HK$'000	HK$'000
Trade receivables	**100,950**	78,601
Other receivables, deposits and prepayments	**161,653**	247,564
	262,603	326,165

The directors consider that the carrying amounts of deposits, trade and other receivables approximate to their fair values.

At each balance sheet date, the Group's allowance for impairment of trade receivables will individually be determined based on the credit history of its customers, such as financial difficulties or default in payments, and current market conditions. Consequently, specific impairment allowance will be recognised. In the opinion of the directors, all of the trade and other receivables are expected to be received or recognised as expense within one year.

The Group allows an average credit period ranging from 60 to 90 days to its trade customers and keeps monitoring its outstanding trade receivables. Overdue balances are regularly reviewed by senior management of the Group.

26. DEPOSITS, TRADE AND OTHER RECEIVABLES *(continued)*

The ageing analysis of trade receivables is as follows:

	Group	
	2009	2008
	HK$'000	HK$'000
Current to 90 days	**73,942**	31,591
91 to 180 days	**232**	975
Over 180 days	**26,776**	46,035
Total	**100,950**	78,601

The ageing analysis of trade receivables that are not impaired is as follows:

	Group	
	2009	2008
	HK$'000	HK$'000
Neither past due nor impaired	**73,942**	31,591
Past due but not impaired	**27,008**	47,010
Total	**100,950**	78,601

As at 31 December 2009, trade receivables of HK$27,008,000 (2008: HK$47,010,000) that were past due but not impaired relate to a number of independent customers for whom there is no recent history of default. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in their credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

27. CASH AND CASH EQUIVALENTS

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash at banks and in hand	**921,692**	422,561	**8,806**	4,381
Short term bank deposits	**148,025**	308,590	**48,025**	–
	1,069,717	731,151	**56,831**	4,381

The interest rate for short term bank deposits was approximately 0.007%–0.07% (2008: 0.04%-0.3%) per annum. The deposits have a maturity of ranging from 14 to 31 days.

Included in cash and cash equivalents in the balance sheet are the following amounts denominated in currencies other than the functional currency of the Company to which they relate:

	Group		Company	
	2009	2008	**2009**	2008
Euro dollars	**26,000**	–	**–**	–
US dollars	**–**	12,675,000	**–**	–

28. TRADE AND OTHER PAYABLES

	Group	
	2009	2008
	HK$'000	HK$'000
Trade payables	**158,616**	122,964
Other payables and accruals	**568,493**	432,135
	727,109	555,099

The directors consider that the carrying amounts of trade and other payables approximate to their fair values.

28. TRADE AND OTHER PAYABLES *(continued)*

The ageing analysis of trade payables is as follows:

	Group	
	2009	2008
	HK$'000	HK$'000
Current to 90 days	**98,846**	71,722
91 to 180 days	**6,856**	25,593
Over 180 days	**52,914**	25,649
Total	**158,616**	122,964

29. BANK AND OTHER BORROWINGS

	Group	
	2009	2008
	HK$'000	HK$'000
Non-current		
Bank borrowings – unsecured	**21,554**	31,260
Other borrowings – unsecured	**30,038**	33,489
	51,592	64,749
Current		
Bank borrowings – unsecured	**335,782**	227,348
Other borrowings – unsecured	**2,758**	13,225
	338,540	240,573
Total bank and other borrowings	**390,132**	305,322

29. BANK AND OTHER BORROWINGS *(continued)*

The bank and other borrowings are repayable as follows:

	Bank borrowings		Other borrowings	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within 1 year	**335,782**	227,348	**2,758**	13,225
Between 1 and 2 years	**5,672**	5,115	**–**	–
Between 2 and 5 years	**15,882**	26,145	**–**	33,489
Wholly repayable within 5 years	**357,336**	258,608	**2,758**	46,714
Over 5 years	**–**	–	**30,038**	–
	357,336	258,608	**32,796**	46,714

Notes:

(i) As at 31 December 2009, the interest rate for bank borrowings is 5.94% (2008: 5.94%).

(ii) The unsecured other borrowings of approximately HK$30,038,000 (2008: HK$33,489,000) are interest bearing at rates in the range of 2.28% to 2.55% per annum for the current financial year and are repayable on the eighth anniversary date from the date of borrowings. The remaining unsecured other borrowings of approximately HK$2,758,000 (2008: HK$13,225,000) is interest bearing at the rate of 4.78% (2008: 4.78%) and is repayable within 5 years.

The carrying amounts and fair values of non-current borrowings are as follows:

	Carrying amounts		Fair values	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Bank borrowings	**21,554**	31,260	**16,795**	24,170
Other borrowings	**30,038**	33,489	**25,592**	28,649
	51,592	64,749	**42,387**	52,819

The fair values are based on cash flows discounted using a rate based on the effective interest rate of 6.43% (2008: 6.43%).

The carrying amounts of short-term borrowings approximate to their fair values.

30. CONVERTIBLE NOTES

On 1 February 2007, the Company issued convertible notes of principal amount of HK$66 million as part of the consideration for the Nanjing CNG Acquisition (the "Feb CN") to an independent third party. The Feb CN is matured on the second anniversary date from the issued date, entitling the holder to convert up to an aggregate of 275 million shares of the Company at the conversion price of HK$0.24 per conversion share subject to adjustments. The Feb CN is convertible in whole or any part after six months from the issue date at the option of the holder, and is bearing interest of 1% per annum payable semi-annually in arrears.

On 13 August 2008, the Feb CN was fully converted into 275 million shares of the Company at the conversion price of HK$0.24 each.

On 20 March 2007, the Company issued interest-free convertible notes of principal amount of HK$90 million as part of the consideration for the Anhui CNG Acquisition (the "Mar CN") to Mr. Xu Tie Liang ("Mr. Xu"), the chairman and substantial shareholder of the Company. The Mar CN is matured on the second anniversary date from the issued date, entitling the holder to convert up to an aggregate of 375 million shares of the Company at the conversion price of HK$0.24 per conversion share subject to adjustments. The Mar CN is convertible in whole or any part after six months from the issue date at the option of the holder.

On 29 April 2008, the Mar CN was fully converted into 375 million shares of the Company at the conversion price of HK$0.24 each.

The fair value of the liability component and equity component of the convertible notes was determined at the issuance date. The fair value of the liability component was calculated using a market interest rate for an equivalent non-convertible note. Interest expense of HK$Nil (2008: HK$4,458,000) has been recognised in the statement of comprehensive income in respect of the convertible notes for the year, using the effective interest method by applying the effective interest rate of 6.75% to the liability component. The residue amount, representing the value of the equity component, is included in reserves.

The movement of the liability and equity components of the convertible notes for the year is set out below:

	Group and Company	
	2009	2008
	HK$'000	HK$'000
Liability component at beginning of the year	–	145,936
Interest expense (note 9)	–	4,458
Interest paid	–	(1,013)
	–	149,381
Converted during the year	–	(149,381)
Liability component at end of the year	–	–
Portion classified as current liabilities	–	–
Long term portion	–	–

31. DEFERRED TAX LIABILITIES

Details of deferred tax liabilities and amount charged/(credited) to the consolidated statement of comprehensive income are as follows:

	Group Accelerated depreciation allowances	
	2009	2008
	HK$'000	HK$'000
At beginning of the year	**5,851**	5,420
Currency realignment	**(12)**	343
Charged to statement of comprehensive income during the year (note 12)	**4,566**	88
At end of the year	**10,405**	5,851

The Group has tax losses arising from Hong Kong operations of HK$6,467,000 (2008: HK$6,467,000) that are agreed by the Inland Revenue Department and available indefinitely for offsetting against future taxable profits of the Group. Deferred tax assets have not been recognised in respect of these losses as the Group has been making tax losses arising from Hong Kong operations for some time.

32. SHARE CAPITAL

	Number of shares	**Amount**
		HK$'000
Authorised:		
Ordinary shares of HK$0.01 each at 1 January 2008, 31 December 2008 and 31 December 2009	125,000,000,000	1,250,000
Issued and fully paid:		
Ordinary shares of HK$0.01 each at 1 January 2008	3,817,236,213	38,172
Shares repurchased (note a)	(9,380,000)	(93)
Conversion of convertible notes (note b)	375,000,000	3,750
Conversion of convertible notes (note c)	275,000,000	2,750
Ordinary shares of HK$0.01 each at 31 December 2008 and 31 December 2009	4,457,856,213	44,579

32. SHARE CAPITAL *(continued)*

The movements in share capital were as follows:

(a) The Company repurchased its own shares on the Stock Exchange as follows:

Month of repurchase	Number of ordinary shares	Price per ordinary share Highest	Price per ordinary share Lowest	Aggregate consideration paid
January 2008	1,440,000	HK$0.405	HK$0.395	HK$574,560
October 2008	7,940,000	HK$0.105	HK$0.102	HK$820,080

The above ordinary shares were subsequently cancelled. The premium paid on the repurchase of the shares of HK$Nil (2008: HK$1,301,000) was charged to share premium. The nominal value of the shares repurchased of HK$Nil (2008: HK$93,000) was transferred to the capital redemption reserve.

(b) On 29 April 2008, the interest-free convertible notes of principal amount of HK$90 million as part of the consideration for the Anhui CNG Acquisition (the "Mar CN") was fully converted into 375 million shares of the Company at the conversion price of HK$0.24 each.

(c) On 13 August 2008, the convertible notes of principal amount of HK$66 million as part of the consideration for the Nanjing CNG Acquisition (the "Feb CN") was fully converted into 275 million shares of the Company at the conversion price of HK$0.24 each.

33. RESERVES

Company

	Share premium account HK$'000	Capital redemption reserve HK$'000	Convertible notes reserve HK$'000	Share option reserve HK$'000	Contributed surplus HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2008	1,808,311	800	17,907	–	49,753	(802,073)	1,074,698
Repurchase of own shares	(1,301)	93	–	–	–	(93)	(1,301)
Conversion of convertible notes	160,788	–	(17,907)	–	–	–	142,881
Profit for the year	–	–	–	–	–	12,221	12,221
At 31 December 2008	1,967,798	893	–	–	49,753	(789,945)	1,228,499
Equity-settled share-based payments	–	–	–	2,332	–	–	2,332
Loss for the year	–	–	–	–	–	(74,923)	(74,923)
At 31 December 2009	1,967,798	893	–	2,332	49,753	(864,868)	1,155,908

Note: The contributed surplus of the Company represents the excess of the net assets value of the subsidiaries acquired pursuant to the Group's reorganisation in 1993 over the nominal value of the Company's shares issued in exchange thereof. Under the Companies Act of Bermuda 1981 (as amended), the contributed surplus of the Company is distributable to the shareholders in certain circumstances which the Company is currently unable to satisfy. The share premium account of the Company is distributable in the form of fully paid bonus shares.

34. SHARE OPTION SCHEMES

The Company adopted a share option scheme (the "Scheme") pursuant to a resolution passed by the shareholders on 31 January 2002.

Under the Scheme, the Board may at its discretion offer options to any eligible participant who is an employee, executive or officer of the Company or its subsidiaries (including executive and non-executive directors of the Company or its subsidiaries) and any suppliers, consultants or advisers who will provide or have provided services to the Company or its subsidiaries.

The maximum number of shares in respect of which options may be granted under the Scheme, subject to further refreshment of the limit on the grant of options by shareholders, is 10% of the issued shares as at 31 January 2002, being the date of shareholders' approval of the Scheme. On 14 August 2002, 9 June 2004 and 22 September 2006, the shareholders of the Company passed an ordinary resolution respectively approving the refreshment of the 10% limit on the grant of options under the Scheme.

The maximum entitlement of each eligible participant in any 12 month-period shall not exceed 1% of the number of shares in issue on the date of offer of an option.

The offer of a grant of options may be accepted within 28 days after the date of the offer, with a consideration of HK$1 for the grant thereof. Exercise period in respect of the options granted shall be determined by the board and in any event such period of time shall not exceed a period of 10 years commencing on the date upon which such option is deemed to be granted and accepted.

The exercise price in relation to each option offered to an eligible participant under the Scheme shall be determined by the Board at its absolute discretion but in any event shall not be less than the highest of: (a) the official closing price of the shares as stated in the daily quotation sheet of the Stock Exchange on the date of offer of an option; (b) the average of the official closing price of the shares as stated in the daily quotation sheet of the Stock Exchange for the five business days immediately preceding the date of offer of an option; and (c) the nominal value of a share.

The Scheme shall be valid for 10 years from 31 January 2002 to 31 January 2012 (both dates inclusive).

In order to motivate and reward the Company's staff, on 30 July 2009, the Company had granted to certain eligible participants (but not include any director, chief executive or substantial shareholder of the Company, or an associate of any of them) of the Company share options to subscribe for an aggregate of 100,000,000 ordinary shares of HK$0.01 each in share capital of the Company, under the share option scheme adopted by the Company on 31 January 2002 (the 10% general limit under the said share option scheme has been refreshed pursuant to a resolution passed by the shareholders of the Company at the annual general meeting of the Company held on 22 September 2006), subject to acceptance by the grantees.

No option was exercised during the years ended 31 December 2009 and 2008.

34. SHARE OPTION SCHEMES *(continued)*

(i) The terms and conditions of the options granted are as follows:

Date of offer to grant option	Exercise price	Number of option	Vesting condition	Contractual life of option
Option granted to employees:				
– on 30 July 2009	HK$0.43	30,000,000	Vesting from 31 July 2011	Expire at the close of business on 30 July 2012
– on 30 July 2009	HK$0.43	30,000,000	Vesting from 31 July 2012	Expire at the close of business on 30 July 2013
– on 30 July 2009	HK$0.43	40,000,000	Vesting from 31 July 2013	Expire at the close of business on 30 July 2014
Total share options		100,000,000		

(ii) The number and weighted average prices of share options are as follows:

	2009		2008	
	Average exercise price	**Number of option '000 shares**	Average exercise price	Number of option '000 shares
Outstanding at 1 January	**–**	**–**	–	–
Granted	**HK$0.43**	**100,000**	–	–
Forfeited	**–**	**–**	–	–
Exercised	**–**	**–**	–	–
Expired	**–**	**–**	–	–
Outstanding at 31 December		**100,000**		–

34. SHARE OPTION SCHEMES *(continued)*

(iii) Fair values of share options and assumptions

The estimate of the fair value of the share options granted is calculated using the Black-Scholes-Merton Option Pricing Model. The inputs into the model were as follows:

	Share options granted on 30 July 2009
Share price	HK$0.42
Exercise price	HK$0.43
Expected volatility	81.57% – 89.26%
Expected option life (in years)	2 – 4
Risk free rate	1.32% – 2.42%
Dividend yield	Nil

The Black-Scholes-Merton Option Pricing Model requires the input of highly subjective assumptions, including the volatility of share prices, changes in subjective input assumptions can materially affect the fair value estimate.

Expected volatility was determined by using the historical volatilities of the Company over the expected option period.

The Group recognised the staff cost of HK$2,332,000 for the year ended 31 December 2009 (2008: HK$Nil) in relation to share option granted by the Company on 30 July 2009.

35. NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS

Acquisition of subsidiaries

Particulars of the assets and liabilities acquired are as follows:

	2009	2008
	HK$'000	HK$'000
Property, plant and equipment	–	62,175
Leasehold land and land use rights	–	1,163
Trade and other receivables	–	22,886
Cash and cash equivalents	–	162,975
Trade and other payables	–	(19,527)
Bank borrowings	–	(11,367)
Minority interests	–	(12,106)
	–	206,199
Interests in associates previously accounted for (note 22)	–	(16,914)
Goodwill on acquisition (note 19)	–	64,518
	–	253,803
Purchase consideration	–	253,803
Less: Cash and cash equivalents acquired	–	162,975
Net cash outflow on acquisition	–	90,828

In 2008, the acquired subsidiaries contributed HK$43,983,000 revenue and HK$1,216,000 to the Group's profit before taxation for the period between the respective dates of acquisition and the balance sheet date.

If the acquisition had been completed on 1 January 2008, total revenue of the Group for the year would have been HK$1,550,097,000, and profit of the Group for the year would have been HK$220,266,000.

36. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one year to twenty years.

At 31 December 2009, the Group had total future minimum lease payments under non-cancelable operating leases falling due as follows:

	Group	
	2009	2008
	HK$'000	HK$'000
Land and buildings expiring:		
Within one year	**2,682**	4,042
After one year but within five years	**1,472**	3,528
After five years	**1,891**	–
	6,045	7,570

37. CAPITAL COMMITMENTS

The Group had the following capital commitments outstanding not provided for at the balance sheet date:

	Group	
	2009	2008
	HK$'000	HK$'000
Property, plant and equipment:		
Contracted, but not provided for	**1,270**	22,643
Establishment and acquisition of subsidiaries:		
Authorised, but not contracted for	**62,581**	31,942
Contracted, but not provided for	**384,000**	909,392
	447,851	963,977

38. FINANCIAL GUARANTEES AND CONTINGENT LIABILITIES

As at 31 December 2009, two of the subsidiaries of the Company, China City Natural Gas Co., Ltd ("CCNG") and 西寧中油燃氣有限責任公司 provided financial guarantees on loan facilities granted to other subsidiaries of the Company to the extent of HK$277,928,000 (2008: HK$107,900,000) and HK$22,688,000 (2008: HK$53,995,000) respectively and the Group does not have any significant contingent liabilities.

In the opinion of the directors, the fair values of the above financial guarantees are insignificant as at 31 December 2009 and 31 December 2008.

39. BALANCES WITH RELATED PARTIES

Details of the Group's significant balances with the following related parties as at 31 December 2009, are as follows:

	2009 **HK$'000**	2008 HK$'000
Minority shareholder:		
Balance due to the Group	**–**	5,684
Associate:		
Balance due to the Group	**211**	–

The balances were unsecured, interest free and repayable on demand.

40. RETIREMENT BENEFITS SCHEME

The Group contributes to the Mandatory Provident Fund Scheme (the "MPF" Scheme) for all qualifying employees employed under the jurisdiction of the Hong Kong Employment Ordinance. Under the rules of the MPF Scheme, contributions to the scheme by the Group and the employees are calculated as a percentage of employee's relevant income, subject to a cap of monthly relevant income of HK$20,000. The retirement benefit scheme costs charged to statement of comprehensive income represent contributions payable by the Group to the fund. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund.

In pursuant to the PRC Government regulations, the Group is required to contribute to a Central Pension Scheme in respect of the Group's employees in the PRC and there is no forfeited contribution under the Central Pension Scheme.

41. FINANCIAL RISK MANAGEMENT

(A) Financial instruments

The Group has classified its financial assets and liabilities in the following categories:

	Notes	**Available-for-sale financial assets HK$'000**	**Financial assets at fair value through profit or loss HK$'000**	**Loans and receivables HK$'000**	**Financial liabilities at amortised cost HK$'000**
2009					
Amount due from an associate	22	**–**	**–**	**211**	**–**
Available-for-sale financial assets	23	**452**	**–**	**–**	**–**
Financial assets at fair value through profit or loss	25	**–**	**57,537**	**–**	**–**
Deposits, trade and other receivables	26	**–**	**–**	**193,860**	**–**
Cash and cash equivalents	27	**–**	**–**	**1,069,717**	**–**
Trade and other payables	28	**–**	**–**	**–**	**(273,067)**
Bank and other borrowings	29	**–**	**–**	**–**	**(390,132)**
		452	**57,537**	**1,263,788**	**(663,199)**

	Notes	Available-for-sale financial assets HK$'000	Financial assets at fair value through profit or loss HK$'000	Loans and receivables HK$'000	Financial liabilities at amortised cost HK$'000
2008					
Available-for-sale financial assets	23	499	–	–	–
Financial assets at fair value through profit or loss	25	–	19,517	–	–
Deposits, trade and other receivables	26	–	–	213,095	–
Cash and cash equivalents	27	–	–	731,151	–
Trade and other payables	28	–	–	–	(221,730)
Bank and other borrowings	29	–	–	–	(305,322)
		499	19,517	944,246	(527,052)

41. FINANCIAL RISK MANAGEMENT *(continued)*

(B) Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, price risk and interest rate risk), credit risk and liquidity risk arising in the normal course of its business and financial instruments. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(a) Market risk

(i) Currency risk

The Group is exposed to currency risk arising from various currency exposures, primarily with respect to Renminbi ("RMB"). Currency risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. In addition, the conversion of RMB into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government. This currency exposure is managed primarily through sourcing raw material denominated in the same currency.

There are no significant monetary balances held by the Group companies as at 31 December 2009 that are denominated in a non-functional currency. Currency risk arises on account of monetary assets and liabilities being denominated in a currency that is not the functional currency, however this is not material to the Group as a whole. Differences resulting from the translation of financial statements into the Group's presentation currency are not taken into consideration.

(ii) Price risk

The Group is exposed to equity price changes arising from equity investments classified as available-for-sale financial assets (note 23) and financial assets at fair value through profit or loss (note 25). Other than unlisted debt securities held as available-for-sale, all of these investments are listed. Most of the Group's listed investments are listed on the Stock Exchange of Hong Kong. Decisions to buy or sell trading securities are based on daily monitoring of the performance of the individual securities compared to that of the Index and other industry indicators, as well as Group's liquidity needs. Listed investments held in the available-for-sale portfolio have been chosen based on their longer term growth potential and are monitored regularly for performance against expectations. The portfolio is diversified in terms of industry distribution, in accordance with the limits set by the Group.

The Company is exposed to other price risk in respect of its investments in subsidiaries. The sensitivity to other price risk in relation to the investments in subsidiaries cannot be reliably determined due to numerous uncertainties regarding the future development of these subsidiaries.

41. FINANCIAL RISK MANAGEMENT *(continued)*

(B) Financial risk factors *(continued)*

(a) *Market risk* ***(continued)***

(iii) *Interest rate risk*

As the Group has no significant interest-bearing assets, except for short term bank deposits (note 27), the Group's income and operating cash flows are substantially independent of changes in market interest rates. Management does not anticipate significant impact on interest-bearing assets resulted from the changes in interest rates because the interest rates of bank deposits are not expected to change significantly.

The Group's interest rate risk arises from bank and other borrowings. Borrowings obtained at variable rates expose the Group to cash flow interest rate risk. Borrowings at fixed rates expose the Group to fair value interest rate risk. Details of the Group's bank and other borrowings are set out in note 29.

The Group has not used any interest rate swaps to hedge its exposure to interest rate risk. In order to manage the cash flow interest rate risk, the Group will repay the corresponding borrowings when it has surplus funds.

At 31 December 2009, it is estimated that a general increase or decrease of 100 basis points in interest rates on RMB denominated borrowings, with all other variables held constant, would decrease/increase the Group's profit before taxation by approximately HK$3,573,360 (2008: HK$2,586,000). The above sensitivity analysis has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for financial instruments in existence at that date. The 100 basis points increase or decrease represents management's assessment of a reasonably possible change in interest rates over the year until the next annual balance sheet date. The analysis was performed on the same basis for 2008.

41. FINANCIAL RISK MANAGEMENT *(continued)*

(B) Financial risk factors *(continued)*

(b) *Credit risk*

The Group's exposure to credit risk is influenced, mainly by the individual characteristics of each customer.

The Group has no significant concentrations of credit risk. The carrying amount of the trade and other receivables included in the balance sheet represents the Group's maximum exposure to credit risk in relation to its financial assets. The Group has policy in place to ensure that sales of products and services are made to customers with an appropriate credit history and the Group performs periodic credit evaluations of its customers. The Group's historical experience in collection of trade and other receivables falls within the recorded allowances and the directors are of the opinion that adequate provision for uncollectible trade and other receivables has been made in the statement of comprehensive income. Further quantitative disclosure in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 26.

The credit risk on liquid funds is considered negligible, since the counterparties are reputable banks with good quality external credit ratings.

(c) *Liquidity risk*

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the parent company's board when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

41. FINANCIAL RISK MANAGEMENT *(continued)*

(B) Financial risk factors *(continued)*

(c) Liquidity risk ***(continued)***

The following table details the remaining contractual maturities at the balance sheet date of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the Group can be required to pay:

	Total carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	Less than 1 year or payable on demand HK$'000	Between 1 to 2 years HK$'000	Between 2 to 5 years HK$'000	Over 5 years HK$'000
2009						
Trade payables	**158,616**	**158,616**	**158,616**	**–**	**–**	**–**
Other payables	**114,451**	**114,451**	**114,451**	**–**	**–**	**–**
Bank borrowings	**357,336**	**377,037**	**353,649**	**6,155**	**17,233**	**–**
Other borrowings	**32,796**	**33,527**	**2,757**	**–**	**–**	**30,770**
	663,199	**683,631**	**629,473**	**6,155**	**17,233**	**30,770**
2008						
Trade payables	122,964	122,964	122,964	–	–	–
Other payables	98,766	98,766	98,766	–	–	–
Bank borrowings	258,608	278,978	245,251	10,291	23,436	–
Other borrowings	46,714	48,102	13,809	–	34,293	–
	527,052	548,810	480,790	10,291	57,729	–

41. FINANCIAL RISK MANAGEMENT *(continued)*

(C) Fair values

(i) Financial instruments carried at fair value

The following table presents the carrying value of the financial instruments measured at fair value at the balance sheet date across the three levels of the fair value hierarchy defined in HKFRS 7, Financial Instruments: Disclosures, with the fair value of each financial instruments categorised in its entirety based on the lowest level of input that is significant to that fair value measurement.

The levels are defined as follows:

- Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments.

- Level 2: fair values measured using quoted prices in active market for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable data.

- Level 3 (lowest level): fair values measured using valuation techniques in which any significant input is not based observable market data.

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
2009				
Available-for-sale financial assets:				
– Listed equity investments	**2**	**–**	**–**	**2**
Financial assets at fair value through profit or loss:				
– Listed equity investments	**8,474**	**49,063**	**–**	**57,537**
	8,476	**49,063**	**–**	**57,539**
2008				
Available-for-sale financial assets:				
– Listed equity investments	49	–	–	49
Financial assets at fair value through profit or loss:				
– Listed equity investments	19,517	–	–	19,517
	19,566	–	–	19,566

During the year, there were no transfers between instruments in Level 1 and Level 2.

41. FINANCIAL RISK MANAGEMENT *(continued)*

(C) Fair values *(continued)*

(ii) Fair values of financial instruments carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2009 and 2008.

(D) Estimation of fair values

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price (i.e. level 1 – highest level). The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques.

The Group uses a variety of methods and makes assumptions that are based on marked conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the balance sheet date (i.e. level 2).

The carrying values less allowance for impairment of current receivables and of current payables are a reasonable approximation of their fair values. Estimated discounted cash flows at the current market interest rate are used to determine fair value for these financial instruments (i.e. level 3- lowest level).

42. CAPITAL MANAGEMENT

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group actively reviews and manages its capital structure in the light of changes in economic conditions so as to maintain a sound capital position. Total capital is defined as shareholders' equity in the consolidated balance sheet.

Neither the Company nor any of its subsidiaries are subject to either internally or externally imposed capital requirements.

43. EVENTS AFTER THE BALANCE SHEET DATE

(a) Framework agreement for provision of coalbed methane

On 11 January 2010, a subsidiary of the Company, CCNG entered into the Exclusive Strategic Co-Operation Framework Agreement with PetroChina CBM pursuant to which CCNG and PetroChina CBM agree to co-operate with each other in development and sale of coalbed methane to be explored in the areas of DaLing-JiXian and BaoDe in Shanxi Province, the PRC for a term of 30 years and Petrochina CBM agrees to supply coalbed methane to CCNG and/or its subsidiaries annually.

(b) Share premium reduction and offsetting accumulated losses

On 20 January 2010, The Board proposed to put forward to the Shareholders a proposal of the Share Premium Reduction pursuant to the laws of Bermuda and the bye-laws of the Company. It is proposed that the amount of HK$600,000,000 standing to the credit of the share premium account be cancelled, with part of the credit arising therefrom being applied towards offsetting the entire amount of the accumulated losses of the Company and the remaining balance being credited to the contributed surplus account of the Company.

On 4 March, 2010, a special resolution was passed to approve the Share Premium Reduction on the special general meeting. Upon the Share Premium Reduction becoming effective, all the accumulated losses of the Company will be eliminated.

(c) Placing of existing shares and subscription of new shares

On 26 January 2010, the Company had entered into the Placing and Subscription Agreement with the Placing Agent (Deutsche Bank AG, Hong Kong Branch), the Vendors (Sino Advance Holdings Limited and Sino Vantage Management Limited) and Mr. Xu Tie-liang. Pursuant to which the Placing Agent had agreed, on a fully-underwritten basis and as agent of the Vendors to place up to 500,000,000 existing shares at a price of HK$1.25 per share to not fewer than 6 independent professional or institutional investors. In addition, pursuant to the Placing and Subscription Agreement, the Vendors have conditionally agreed to subscribe for the Subscription Shares at HK$1.25 (before deduction of cost of the Placing) per Subscription Share. The net proceeds of approximately HK$606 million from the Subscription is intended to be used for investment and development of principal activities in natural gas and coalbed methane business. The net price (after deduction of the cost in connection with the Placing) per Subscription Share is approximately HK$1.21. On 2 February 2010, the placing of existing shares and subscription of new shares were completed.

43. EVENTS AFTER THE BALANCE SHEET DATE *(continued)*

(d) Investment in Yan Chuan Yong Ning Natural Gas Company Limited

On 21 March 2010, a subsidiary of the Company, CCNG entered into an equity interest transfer agreement and two supplemental agreements with an independent party to acquire 60% equity interest in Yan Chuan Yong Ning Natural Gas Company Limited with a consideration of RMB31,800,000.

44. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2009

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2009 and which have not been early adopted in these financial statements.

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

In addition, the following developments may result in new or amended disclosures in the financial statements:

	Effective for accounting periods beginning on or after
HKAS 3 (Revised), Business Combinations	1 July 2009
Amendments to HKAS 27, Consolidated and Separate Financial Statements	1 July 2009
Amendments to HKAS 39, Financial instruments Recognition and Measurements – Eligible Hedged Items	1 July 2009
HK(IFRIC)-17, Distribution of Non-cash Assets to Owners	1 July 2009
Improvements to HKFRSs 2009	1 July 2009 or 1 January 2010
HKFRS 2 (Amendments), Group Cash-settled Share-based Payment Transactions	1 January 2010
HKAS 24 (Revised), Related Party Disclosures	1 January 2011

45. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 8 April 2010.

Five Year Financial Summary

A summary of the results and of the assets and liabilities of the Group for the last five financial period/years, as extracted from the published audited financial statements and reclassified as appropriate, is set out below.

	Year ended 31 December 2009 HK$'000	Year ended 31 December 2008 HK$'000	Year ended 31 December 2007 HK$'000	Period from 1 August 2005 to 31 December 2006 HK$'000	Year ended 31 July 2005 HK$'000
RESULTS					
Turnover	**1,721,138**	1,471,364	677,372	369,914	200,928
Profit/(loss) before tax	**305,381**	221,128	129,447	73,646	(3,554)
Tax	**(52,609)**	(34,085)	(15,639)	(7,319)	(3,374)
Profit/(loss) for the year from continuing operations	**252,772**	187,043	113,808	66,327	(6,928)
DISCONTINUED OPERATIONS					
Profit/(loss) for the year from discontinued operations	**–**	–	–	1,824	(125,554)
Profit/(loss) for the year	**252,772**	187,043	113,808	68,151	(132,482)
Attributable to:					
Equity holders of the Company	**132,090**	73,025	72,622	57,342	(139,797)
Minority interests	**120,682**	114,018	41,186	10,809	7,315
	252,772	187,043	113,808	68,151	(132,482)
ASSETS AND LIABILITIES					
TOTAL ASSETS	**3,364,619**	2,792,668	2,186,411	492,520	312,415
TOTAL LIABILITIES	**(1,141,871)**	(888,840)	(644,226)	(159,953)	(128,680)
TOTAL EQUITY	**2,222,748**	1,903,828	1,542,185	332,567	183,735
MINORITY INTERESTS	**590,676**	405,004	287,013	21,213	12,960